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The Rational Optimist™

Life is Long (part one)

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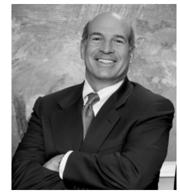

As business owners, many of us experience an emotion that often holds us back and hinders our success; it is frustration, sometimes brought about from feeling totally overwhelmed.

Oliver Wendell Holmes said, "The greatest thing in this world is not so much where we are, but in the direction we're moving." Many of us, as business owners and entrepreneurs, might be frustrated because we feel that we carry the weight of the world on our shoulders. We are the providers, the directors, the buck stops with us, and ultimately, we feel everything is our responsibility.

"The greatest thing in this world is not so much where we are, but in the direction we're moving."

If there isn't a little frustration in life, most entrepreneurs are not motivated to make necessary changes. Because when things are running smoothly, it is human nature to just keep going.

And when you find yourself frustrated, realize that it may very well be your own internal self-dialogue doing that to you. That "self-talk" is the source of your frustration. Dr. Maltz' strangely titled book "PsychoCybernetics" shows that thoughts are things and that our thoughts affect our actions. Thinking and saying we are frustrated can become self-fulfilling.

Perhaps we may need to reframe our perspective. Instead of being frustrated by "the weight of the world," and by not getting "everything done," why not give ourselves a little bit of a break? We're juggling so many balls in the air, with so much going on, the frustration may be just the way that you and I are labeling and framing things.

The truth is life is long. We *don't* have to do everything right now. We would never want all of the food in the world that we were ever going to eat delivered to us in one meal.

A solution is to pace ourselves. It is key to recognize that this whole adventure of being an entrepreneur

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What's Inside This Issue:

Cold Weather and the Ripple Effect

Chad Warrick, Senior Wealth Advisor
Partner and Chief Investment Officer

I hope this commentary finds you well and warm. Everyone seems to have had enough of the cold weather, except for our avid skiers. Snow, ice, and freezing temperatures have touched nearly every client and corner of the country. Even the U. S. Economy for the 1st quarter of 2014 has had enough. Janet Yellen, Federal Reserve Chairwomen has identified a sluggish start of the new year due to the vortex string of bad weather.

Recently, Yellen testified to the Senate Banking Committee that numbers for unemployment, retail sales and manufacturing were well below what was anticipated and that it was a direct result of the heavy snowstorms and arctic cold blasts.

As we approach Spring with warmer weather, it will be nice to see the economy heat back up too. We should continue to see improving commodity prices such as lumber and cement, which have been a good sign for the housing market and new home construction. Interest rates remain at fairly low levels while housing prices have continued to improve over the last four years. The Fed has a close eye on the potential threat of another housing bubble.

Yellen testified that the Reserve would consider altering the rate of tapering its bond-buying program, scheduled to end in the fall, only if there was a significant change in the outlook. She cautioned against jumping to conclusions. This is a signal that we are still in a marathon and not a sprint. The Fed has a close eye on the economy and traders have their fingers on the trigger, making sure that the economy continues making progress and can handle standing on its own feet without major stimulus.

We will know more about the Feds' plans following their next meeting which is scheduled for March 18th. One of the biggest concerns is whether the low interest rates are creating asset-price bubbles. Yellen acknowledged that low borrowing costs "can give rise to behavior that poses threats to financial stability" and that the Federal Reserve was watching that potential threat thoroughly and will remain vigilant. This fuels the current debate on whether or not the Feds should raise interests

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Solid Growth • Safely Managed • Trusted Advice rates early than planned. I believe that we could still be in a low interest rate environment for many more quarters.

Keep in mind that the Federal Reserve made a promise to keep interest rates near zero until the jobless rate was below 6.5 percent. In January, unemployment was close with 6.6. This is a challenge for the Federal policy makers. Like any good play book, plans can change and different contributing factors could effect the economy enough to alter the single factor of jobless claim.

US equities have recovered some from the strong early February sell off; and as you compare the

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investment universe, the equity markets remain an attractive source to new and existing investment resources. This is not to say that it will be seeing a straight 45 degree upward trajectory. Volatility will continue to play a big factor in investor confidence and their outlook. Following the a year we have had in 2013, I would expect volatility to be on the raise. And it is important to maintain a diversified portfolio both here in the US and aboard, which includes developed International and emerging markets equity exposures.

Tips to Minimize the Medicare 3.8% Tax

Jason Print, CFP
Partner and Senior Wealth Advisor

How do we minimize the Medicare 3.8% tax? That is a question that many experts in our industry are working to find the answers. Steve Parrish, with more than 35 years experience as a wealth advisor and financial planner contributed the following strategies to Forbes Entrepreneurs in August. Parrish wrote "Despite the complexity of this 3.8% surtax, there are two basic ways to "burp" income to reduce or avoid this tax: 1) reduce income (MAGI) below the threshold, or 2) reduce the amount of NII that is subject to the tax.

Reduce Your Overall Income

•If you are an employee of your company, you can direct some of your earned income to a **qualified retirement plan** to reduce your taxable income. You can: 1) increase your contribution to your 401(k) plan, 2) add dollars to the plan as part of a catch-up contribution (if you're age 50 or older) or 3) create a new qualified plan. These pre-tax contributions lower the amount of wages that are counted in MAGI.

•Similarly, you can direct wages to a **nonqualified deferred compensation plan**. This too reduces current taxable compensation. A caveat: this must be set up in advance, and if your business is a "flow through" tax entity (for example an S Corp or LLC), some of what you defer from wages will appear in your owner share of earnings. MAGI would include those earnings.

•**Spread out capital gains** from a sale of company stock or other business assets. With some tax modeling, it may be possible to calculate how to spread out payments such that you keep income below the threshold. In the example above where the couple's MAGI is projected to be $300,000, they might arrange a pending sale so that they are spreading out capital gains over future years. They could design the sale such that their income in the current year is now less than $250,000; and, thereby they avoid having to worry about the tax.

•**Invest in tax free or tax deferred instruments.** The income derived from financial instruments can be the culprit in driving taxable income over the MAGI threshold. If the income, however, is coming from municipal bonds, deferred annuities or the growth of cash value in a life insurance policy, such income is potentially not subject to current inclusion in income.

Reduce Your Net Investment Income

Even if your income is above the MAGI threshold, the 3.8% tax can be lowered or eliminated by reducing the amount that it characterized as net investment income.

•**Re-characterize income**. Working with tax advisors, you may be able to re-characterize some forms of income. For example, with proper planning, what otherwise would be characterized as passive income from a business (and therefore treated as NII), may be structured to constitute wages (and not subject to the 3.8% tax)."

This would primarily pertain to small business owners; having income classified as wages may bring in other tax issues. However, it's worth asking your tax advisor.

Source: Forbes website

Life is Long (part one): Continued from page 1.
By Mitch Levin

is life long. This adventure includes the process, the journey, overcoming the obstacles, taking on risks, and enjoying the rewards.

By reframing our perspective, we shift the focus of our responsibilities toward moving forward, expanding, growing, creating more value and helping more people. This allows us to sit back and appreciate from where we have come to where we are now. We can take joy in the direction that we are heading.

By reframing our perspective, we shift the focus of our responsibilities toward moving forward, expanding, growing, creating more value and helping more people.

And by changing the self-talk, you give yourself permission to stop being so hard on yourself and to relax a little bit.

After all, we are likely to take our last breath with one more paper to get filed, one more project to complete...Living is the journey. That is our destiny. It can become our joy and our success.

For more on this, you may want to read the national best-seller, "Power Principles of Success", that I co-authored. Also, look for part two of this article titled "Life Is Short" in an upcoming issue of the *Rational Optimist*. Make great decisions!

CLIENT'S CORNER

Learning To Love The Inevitable Correction

"Will record high stocks withstand plunging expectations?"

That was the headline on my financial website of choice when I fired up my computer one morning in January. And even I had to appreciate it, as an exemplar of its genre: financial journalism's unique ability (never mind willingness) to juxtapose two untruths, and to distill from them a wonderfully silly and ultimately unanswerable question—hoping thereby to scare you out of the market.

(For the record, the two relevant truths are (a) that relative to earnings and dividends, equities are nowhere close to their highs of 1999-2000, and (b) that earnings growth expectations, while clearly moderating, aren't doing anything like "plunging." Earnings are in point of fact setting new records, and the consensus forecast is for them to do so again in 2014.)

But this headline does, in its own singularly unhelpful way, raise a question that seems to be on a lot of people's minds these days. To wit, after its history-making run—the S&P is more than two and a half times its panic lows of March 2009—isn't the market due for some sort of correction? And ought not an investor to sell out now, and wait for said correction?

So as not to keep you in suspense, and always trying to be as helpful as I can, let me answer the question categorically: yes, somewhere in the indeterminate future there is going to be a correction worthy of the name—because there always is. Corrections—defined by most professional investors as declines of between 10% and 20%—are as common as dirt, and come along as regularly as does the crosstown bus. (Since 1980, in fact, the ***average*** intra-year decline in the S&P 500 has been 14.4%.) The problem is that no one knows where a correction will start, nor where it will end—corrections cannot consistently be timed by anyone—and therefore you aren't going to be able to trade the next one successfully. That is, you are not going to get better results by trying to time a correction than you would have if you just rode it out.

Nor should you try. (a) You're going to miss the top; you'll either get out too soon or too late. (b) You're then going to miss the bottom; you'll either get back in too soon, too late, or—heaven forbid—not at all, because while you waited for the market to make new correction lows, it inevitably turned around and resumed its long-term uptrend into new high ground, leaving you paralyzed on the dock, hoping against hope that a ship that's long since sailed will come back to get you. It won't.

Wait, it gets worse: (c) when you sell, inevitably mistiming the top, you'll trigger current taxation, as well as two rounds of transaction costs you'll pay to sell and then to buy back in again—which you will also mistime.

Trading the "inevitable" correction is thus in every sense analogous to Aesop's fable of belling the cat. You'll remember that in this story a convocation of mice, whose ranks were being decimated by a cat, voted unanimously to tie a bell around said cat's neck so that they could hear it coming and hide themselves. This eminently logical resolution foundered almost immediately on the issue of which mouse was to do the tying.

Even I would admit that it is virtually intuitive to wish to preserve one's gains in a market that has risen dramatically, to avoid even a temporary setback of potentially significant proportions, and then to buy one's portfolio back at importantly lower prices as the long-term advance of equity values resumes. Intuitive, yes, and quite impossible. No mouse (or team of mice) is going to get that bell tied around the cat's neck. And you're not going to improve your portfolio's long-term return by trading a correction. Indeed, you'll be lucky if you don't blow that return to smithereens.

So what ought the rational investor to do about a correction? I think we all have two reasonable choices. One is simply to ignore it; the other is actively to enjoy it.

Particularly if you are still in the accumulation phase of your investing career—or are simply reinvesting your dividends—then presumably you will have the plain common sense to greet a correction not as a victim but as an opportunist. For while the (temporary) correction lasts, you're going to be adding to your holdings (and/or reinvesting your dividends) at sale prices. Indeed, if it helps, be invited to think of a correction as a sort of January white sale on the Great Companies in America and the World.

I can think of few things more irrational than an accumulator—a person who may need to buy equities for years to come in order to fund his retirement goals—wanting the market to go up. This is the equivalent of going to the supermarket, buying three cans of tuna fish for $10, and hoping that when you return next week, your $10 will only buy two cans. For an accumulator, in fact, the only thing better than a correction is a howling bear market. But, sadly, you can't often get those.

The last word on corrections was spoken by the superstar mutual fund manager of the 1980s and '90s, Peter Lynch: "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in the corrections themselves." To evoke Aesop again: you have my permission—nay, my active encouragement, and almost certainly that of your financial advisor—to assume that it will be the tortoise of the buy and hold equity investor who comes out ahead of the hare of the correction timer. And with much less stress.

Elinor Ostrom, like so many others, died from cancer last year. She was a remarkable woman in many ways.

Elinor was the only woman to win the Nobel Prize in Economic Science — an achievement all the more remarkable because she was not actually an economist.

Professor Ostrom's prize winning work examined how people collaborate and organize themselves to manage common resources like forests or fisheries, even when governments are not involved. The research overturned the conventional wisdom about the need for government regulation of public resources. She shared the Nobel Prize with Oliver E. Williamson.

In 1973, Professor Ostrom and her husband, Vincent, founded the Workshop in Political Theory and Policy Analysis at Indiana University. It would become the first of several interdisciplinary institution she helped shape, and a focus for her collaboration with scholars across academia, including ecologists, computer scientists and psychologists.

Just as her academic habits emphasized collaboration and cooperation, so did the content of her study.

Source: The New York Times Obituary, June 12, 2012 by Catherine Rampell

"Fing*lish*" (n) Financial English

First In, First Out (FIFO)

Method of accounting for inventory whereby, quite literally, the inventory is assumed to be sold in the chronological order in which it was purchased. For example, the following formula is used in computing the cost of goods sold.

Last In, Last Out (LILO)

Method of accounting for inventory that ties the cost of goods sold to the cost of the most recent purchases. The formula for cost of goods sold is: beginning inventory + purchases - ending inventory = cost of goods sold."

Source: Dictionary of Finance and Investment Terms

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