Investor Insights & Outlook

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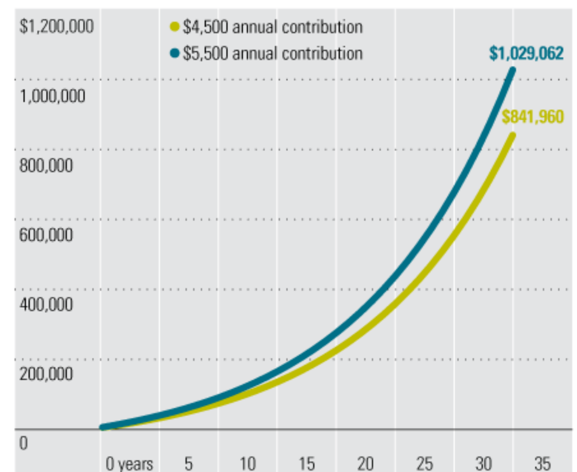
Don't Forget to Raise Your IRA Contribution

In 2013, contribution limits for both traditional and Roth IRAs (individual retirement accounts) will increase to $5,500 a year for those 49 years of age or younger. If you are 50 or older, the maximum contribution is $6,500. This limit can be split between a traditional and a Roth IRA. These annual contribution limits are imposed by the Federal Government.

The graph shows both a $4,500 and $5,500 annual contribution growing at a hypothetical 8% annual return. Notice the dramatic impact on the ending value of the portfolio. This may be a great time to re-evaluate your financial situation and increase your annual investment to your IRA. Even if you are unable to max out your contribution, any increase you can afford may help you reach your savings goals more easily in the long run.

Hypothetical Growth of Annual IRA Contribution



This is for illustrative purposes only and not indicative of any investment. Funds in a regular IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free as money withdrawn is not taxed. Penalties may apply for withdrawals prior to the age of 59 1/2.

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Advisor Corner

Garner Financial Management, Inc. was founded with one very important and underlying mission – to help improve and enrich the quality of life for you and your family.
Garner Financial Management utilizes global non-proprietary resources in order to design investment portfolios to meet all of your financial needs. We provide a customized and straightforward approach to financial growth, protection and management. Our fee-only structure is specifically designed to avoid conflicts of interest. As an independent advisor we utilize no proprietary investment products, and are free to select from all available investments. This investment process allows us to identify the most appropriate investment strategy and to focus on helping you attain your long-term financial goals.

The fiduciary role we assume in every client relationship is paramount. We understand the duty that we serve and hold ourselves to the highest personal and professional standards. It is our mission to grow and protect your wealth through integrity, passion and knowledge.

Chasing Performance

Investors often endure poor timing and planning as many chase past performance. They buy into funds that are performing well and initiate a selling spree following a decline. This becomes evident when evaluating a fund's total return compared with the investor return. Overall, the investor return translates to the average investor's experience as measured by the timing decisions of all investors in the fund.

The image illustrates the investor return relative to the total return for a given fund. Over the short term, both the total and investor returns were positive and relatively similar. Over a 10-year period, however, total return greatly exceeded investor return. Investors who attempted to time the market ran the risk of missing periods of exceptional returns.

Comparison of a Fund's Return Performance Over Time

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Returns and principal invested in stocks are not guaranteed. Morningstar investor returns measure how the typical investor in that fund fared over time, incorporating the impact of cash inflows and outflows from purchases and sales. It is not one specific investor's experience, but rather a measure of the return earned collectively by all the investors in the fund. Total return measures the percentage change in price for a fund, assuming the investor buys and holds the fund over the time period, reinvests distributions, and does not make any additional purchases or sales. Investor returns are not a substitute for total returns but can be used in combination with them. Data as of October 2012.

Source: The fund illustrated in this example was selected from Morningstar's open-end database.

Risk, Not Volatility, Is the Real Enemy

What would you do if your investments lost 10% in a single day? A) Add more money to my account. B) Hold steady with what I've got. C) Yank my money; I wouldn't be able to stand any more losses.

If investors buy the right investments but sell them at the wrong time because they can't handle the price fluctuations, they may have been better off avoiding those investments in the first place. Most investors are poor judges of their own risk tolerance, feeling more risk-resilient in up markets and more risk-averse after market losses. However, focusing on an investor's response to short-term losses inappropriately confuses risk and volatility. Understanding the difference between the two and focusing on the former is a potential way to make sure you reach your financial goals.

Volatility encompasses the changes in the price of a security, a portfolio, or a market segment, both on the upside and downside, during a short time period like a day, a month, or a year. Risk, by contrast, is the chance that you won't be able to meet your financial goals or that you'll have to recalibrate your goals because your investment comes up short. So how can investors focus on risk while putting volatility in its place? The first step is to know that volatility is inevitable, and if you have a long enough time horizon, you may be able to harness it for your own benefit. Diversifying your portfolio among different asset classes can also help mute the volatility. It helps to articulate your real risks: your financial goals and the possibility of falling short of them. Finally, plan to keep money you need for near-term expenses out of the volatility mix altogether.

Investing in securities always involves risk of loss. Diversification does not eliminate the risk of experiencing investment losses.

The Fallacy of Predictions

One of the more interesting myths in the investment world is that large financial institutions, with their access to mountains of data pored over by teams of staff economists, can determine where the markets are going and profit accordingly. Gullible investors believe this even though, every year, we can go back to the confident predictions of brokerage firm leaders and leading hedge fund managers and see a hard-to-explain gulf between expectation and reality.

This past 12 months, the broad U.S. markets delivered roughly a 16% return, depending on which of the indices you're measuring--a good year by any standard. So let's jump into a time machine and see whether the brokerage firms were telling us to go all-in on stocks and take full advantage of this nice little bull market run.

They weren't. Adam Parker, who serves as the U.S. equity strategist for the mighty Morgan Stanley organization, boldly predicted that the S&P 500 index would fall 7.2% in 2012. He recently said that he underestimated the impact of central bank stimulus.

Credit Suisse's "strategist" Andrew Garthwaite, Wells Fargo "strategist" Gina Martin Adams and Bank of America/Merrill Lynch "strategist" Savita Subramanian forecast essentially flat returns for U.S. equities,

David Kostin of Goldman Sachs, meanwhile, predicted that the S&P 500 would drop 25% in the midst of a Euro collapse, and boldly predicted that Europe's sovereign debt crisis would worsen "almost daily." John Paulson, founder of what may be the most famous global hedge fund, based in NY, told clients in April that he was wagering heavily against European sovereign bonds. UBS economist Jonathan Golub forecast struggling equities in the face of European recession.

In fact, the Eurozone became practically the epicenter of bad Wall Street predictions; crafty traders watched in dismay as Greek bonds surged in value in 2012, and the Euro itself strengthened about 9.4% from its July 24 low against the dollar. Germany's DAX Index managed to survive the predicted freefall by returning 29% to investors who ignored their brokers and stayed the course in Europe. The most dire predictions came from Citigroup economist Willem Buiter in London, who told reporters last February that there was a 50% chance Greece would leave the euro within 18 months. In May, he raised the risk to 75%, and cited a 90% chance of departure in July--and said he was assuming that there would be an exit by January 1.

2012 is not an isolated incident; in fact, last year a company called CXO Advisory Group--which tracks more than 60 market "gurus" (the company's term)--calculated that the average Wall Street expert forecaster had been accurate only 48% of the time over the long term. Translated, that means that a coin flip is a slightly more accurate predictor of the future than the experts you see on cable's financial TV channels.

But of course this is the season when, once again, the experts, economists and visionaries put on their gypsy shawls, get out their crystal balls, and tell you with calm certainty where the markets are going in 2013. You are about to be deluged with confident predictions from Wall Street, along with Money Magazine telling you "the smart place to put your money now," and once again it will all sound believable. Perhaps the best advice is to imagine, as these gurus come on the tube, that they are wearing tall, floppy wizard hats with a bright crescent moon inscribed on the front.

Or you can turn off the TV and pull out a more reliable guide to the future: any one of the coins in your pocket that happens to have a head and a tails.

Fiscal Cliff Decision Reached

Congress passed the American Taxpayer Relief Act of 2012 on January 1st, 2013, providing taxpayers with clearer expectations about what lies ahead.

Social Security Payroll Tax Reverts to 6.2% from 4.2%: Back in 2010, President Obama and Congress cut the Social Security payroll tax rate for individuals to 4.2% instead of 6.2%. The rate remained at 4.2% for 2011 and 2012, but this cut was set to expire in 2013. Congress' recent vote decided to let it expire, which means that all taxpayers will now pay 2% more in Social Security taxes this year.

Most Bush-era Tax Cuts Extended, Except for the very Rich: In 2001 and 2003, legislation passed under President Bush lowered marginal tax rates for most U.S. taxpayers, reduced dividend and capital gains taxes, and enhanced a number of tax credits. The tax package passed on January 1st, 2013 extends most of these tax cuts for taxpayers with incomes lower than $400,000 (individuals) and $450,000 (married couples). Taxpayers with incomes above the thresholds listed will face a 39.6% tax rate instead of 35%, but only on income that exceeds the thresholds. Their capital gains rate would also increase, from 15% to 20%. Also, a new 3.8% surtax on investment income (to fund Obamacare) will be imposed on individuals making more than $200,000 and married couples making more than $250,000.

Estate Tax Higher, AMT Indexed to Inflation: The inheritance threshold above which the estate tax applies was supposed to revert to $3.5 million instead of $5 million, but according to Congress' decision, it will not. However, above the $5 million threshold, the estate tax rate will now be 40% instead of 35%. Other provisions include that the Alternative Minimum Tax (AMT) would be indexed to inflation, and federal unemployment benefits would be extended for a year.

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