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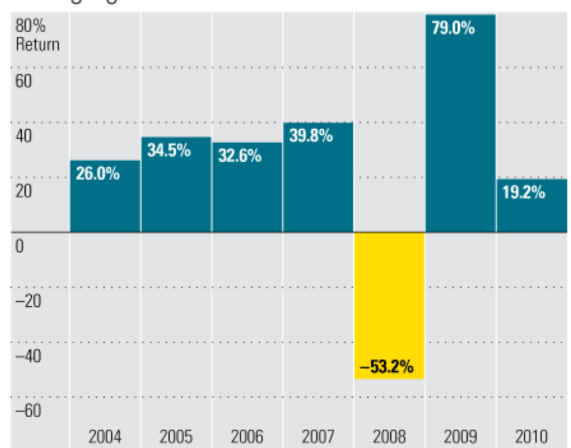
Overconfidence: False Perception

Consider the performance of emerging-market stocks from 2004 to 2010. For the first four years, stocks in these regions produced impressive returns. Based on this stellar track record, a typical investor may expect more of the same. Well, 2008 was quite dismal for emerging-market investors, as they lost more than half of their investment—53.2%. In 2009, however, emerging markets rebounded, producing a return of 79.0%. In 2010, emerging-market returns were still positive, but down to 19.2%. When investing, investors must consider the possibility of another year like 2008 in the future. Strong positive returns may be enough to create overconfidence among investors. Investors should avoid overestimating their ability to predict future outcomes and avoid focusing on only the upside potential while dismissing the possibility of poor performance.

Historical performance of emerging-market stocks 2004–2010



Source: Emerging-market stocks are represented by the Morgan Stanley Capital International Emerging Markets Index. An investment cannot be made directly in an index. Returns and principal invested in stocks are not guaranteed. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. Emerging-market investments are more risky than investments in developed markets.

Advisor Corner

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I pride myself in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is my business and I take that responsibility very seriously.

As an objective and independent fee-only wealth manager, my sole interest is to ensure my recommendations meet your financial goals.

COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

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'Tis the Season for Giving

By Louis E. Conrad II

- Charitable giving can provide you with a means of supporting tax-exempt groups you favor, as well as a tax deduction.
- This article reviews the criteria that the IRS requires you to follow.

In this season known for generosity toward others, you may want to consider supporting charitable causes dear to your heart. Support could certainly be in a financial form, but your time as a volunteer may also be appreciated by a charity (and you may derive more personal satisfaction from your contribution of time than of money). Your generosity may have a tax benefit too. This month we outline some of the factors to consider in your charitable giving decisions.

The Basics

You may find it helpful to establish a charitable giving plan based on your financial resources and charitable goals.

Do you want to donate cash, personal property, or your time? Do you want to give smaller amounts to several different charities or larger amounts to fewer charities? Do you want to support certain causes and do you want to provide your support to the local community, nationally, or internationally?

Tax Tips

To ensure that your contribution is tax deductible, confirm that the tax-exempt group is an actual charity. To receive a deduction, money or property should be given to: (1) charitable 501(c)(3) organizations, as listed in IRS Publication 78 or by using the on-line IRS search tool located at www.irs.gov/charities; (2) religious organizations; (3) federal, state, and local governments if for public purposes; (4) non-profit schools and hospitals; (5) public parks and recreation facilities; (6) organizations such as Boy and Girl Scouts, Boys and Girls Clubs of America, Goodwill Industries, Red Cross, Salvation Army, and United Way; (7) and war veterans' groups.

To substantiate your contributions, you should maintain cancelled checks or credit card receipts. For every gift of $250 or greater, you must also obtain a statement from the charity listing your donation and whether you received any goods or services in return. The value of any goods or services you received, such as a dinner at a charity event, is deducted from the value of your contribution.

You can deduct the fair market value of noncash donations, but it is the donor's responsibility to estimate the value of the goods donated. For donated property in excess of $5,000, however, you must obtain a qualified appraisal (except for publicly traded stock). If your total deduction for noncash contributions in a tax year exceeds $500, you must complete the appropriate section of IRS Form 8283 and file it with your 1040.

Though the time you spend as a volunteer is not deductible, you may deduct out-of-pocket expenses, transportation expenses (either actual incurred transportation expenses or $0.14 per mile), as well as meals and lodging. The deduction for charitable contributions cannot exceed 50% of your adjusted gross income for most types of contributions.

Money or property contributed to the following types of organizations is not tax deductible: (1) civic leagues, social and sports clubs, labor unions, and chambers of commerce; (2) most foreign organizations; (3) lobbying entities; and (4) political groups or candidates for public office. Further, the cost of raffle, bingo, or lottery tickets is also not deductible.

Resources

Numerous resources exist to assist you with your charitable giving decisions. One such web site is www.guidestar.org. You may also want to consider organizations that support your local community.

In this season of giving, consider how to make a positive difference in the lives of others.

Monthly Market Commentary

Strong retail sales, an improving employment report, falling gasoline prices, and rising auto sales all painted a picture of a stronger U.S. economy these past few weeks.

GDP: GDP for the third quarter was revised downward to 2.0% from 2.5%, based on a larger-than-estimated inventory reduction and lower-than-expected imports. Fourth-quarter GDP estimates remain in the 2.5%-3.0% range, which would bring the full year to the 1.5%-1.75% range. One of the strongest determinants that could make these numbers true is consumer demand, which is expected to remain high at least during the holidays.

Employment: November employment numbers continued on a slow but steady upward trend. Although the recession officially ended in June 2009, private employment continued to decline until Feb. 2010. Overall, 8.9 million private-sector jobs were lost during the recession, and only 3.0 million were recovered since the February 2010 bottom (roughly equivalent to a 140,000-150,000 per month average). Consistent along these lines, employment numbers in November increased by 140,000 (better than 117,000 in October, but not as good as 220,000 in September). Longer store hours this holiday season translated into 50,000 jobs added in the past month, but these positions are mostly temporary, and the trend will find itself reversed once the busy season is over.

Unemployment: The drop in the unemployment rate to 8.6% from 9.0% may well be the best news of the week. However, only half of the decline was due to people actually finding jobs. The other half of the decline happened because of people who stopped looking, which is unusual, to say the least, in a still-uncertain economy. While a decline in the unemployment rate is good, the key metric that will move the economy forward is the number of new jobs added, which has been good, but not stellar, so far.

Income data: Real disposable income grew by 0.3% in October after declining three months in a row because of high inflation, falling Medicaid payments, and collapsing interest receipts. Consumption slowed from 0.5% in September to an even more depressing 0.1% in October. But then again, a year-over-year analysis using a three-month moving average shows consumption more steady, at about 2%.

However, the biggest detriment to consumer incomes has been taxes. Cessation of various stimulus programs, increases in state tax rates, and the progressive federal tax system mean that a 2.7% jump in incomes has been accompanied by a 15.9% jump in taxes. High earners were probably the ones who felt it most, but a look at luxury retailers contradicts this, as high-end spending has remained fairly constant.

Retail sales: In terms of year-over-year percentage change data, retail sales seem to be slowing down, but the comparison is very tough, since November was one of the strongest months in 2010. Weekly data is strong and suggests a potentially better picture for December sales, especially since it seems that many consumers have not begun their holiday shopping yet.

Auto industry: Automakers recently reported new U.S. light-vehicle sales with the best seasonally adjusted annualized selling rate since Cash for Clunkers in August 2009. In absolute terms, November sales totaled 994,786, up 13.9% from November 2010, and every major auto manufacturer except Honda posted a year-over-year sales increase.

In light of these mostly positive economic indicators, the overall consensus seems to finally indicate that the U.S. economy will not double dip. On the other hand, nobody is yet willing to project a robust 2012, either.

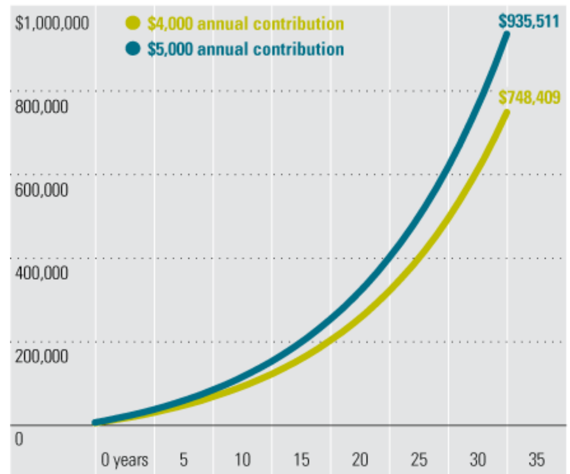
Don't Forget to Raise Your IRA Contribution

- Whether you are eligible to contribute to a Roth IRA is dependent on your modified adjusted gross income (MAGI) during the tax year.
- If you file single and your MAGI will be below $110,000, or you file married and your MAGI will be below $173,000, then you may make the maximum allowed contribution in 2012 to a Roth IRA. Otherwise, you may contribute to a Traditional IRA.

In 2012, contribution limits for both traditional and Roth IRAs (individual retirement accounts) will remain the same as in 2011: $5,000 a year for those 49 years of age or younger. If you are 50 or older, the maximum contribution is $6,000. 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 $4,000 and $5,000 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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