NORTHWEST ASSET MANAGEMENT

Chuck Jones & Associates, Inc.

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"You can either take action, or you can hang back and hope for a miracle. Miracles are great, but they are so unpredictable."
Peter Drucker

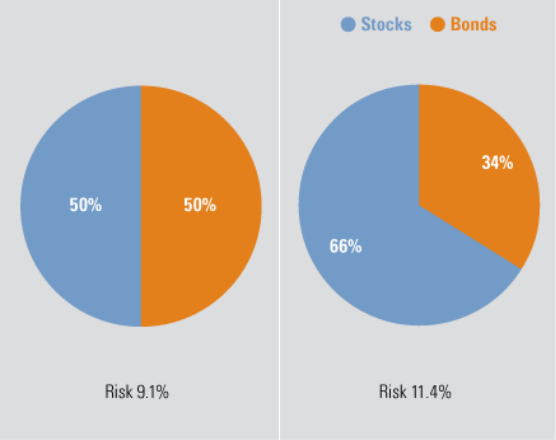
A goal with no plan is simply a wish. Do you have a plan?

The Importance of Rebalancing

Over time, your asset-allocation policy can veer off track because of market ups and downs. This is illustrated quite clearly in the attached image; a strong stock performance can cause a simple 50/50 portfolio mix to become unbalanced over time. After 30 years, what was once a 50% allocation to stocks now sits at 66%—quite a jump. Moreover, not only does the portfolio's allocation change, but the portfolio's risk also changes, rising sharply from 9.1% to 11.4%. If your needs and/or risk tolerance have not changed, your allocation shouldn't either.

But why would anyone want to sell investments that have done great in order to purchase laggards? While rebalancing might seem odd at first, it is all about risk control. If more and more of your total portfolio winds up in one investment, you risk losing a lot should that investment stumble.

Change of Portfolio Allocation:
January 1982–December 2011



Keep in mind that an investment cannot be made directly in an index, and past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. The sale of an investment for the purposes of rebalancing may be subject to taxes. Risk is measured by standard deviation. Standard deviation is a statistical measure of the extent to which returns vary from the expected returns. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Stocks are not guaranteed and have been more volatile than bonds.

Source: Stocks—Standard & Poor's 500®, which is an unmanaged group of securities and is considered to be representative of the stock market in general; Bonds—five-year U.S. Government bond.

In this issue:

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CHUCK'S TIPS, FACTS AND HELPFUL HINTS:

INHERITED IRAs: Well the 'spread the wealth' democrats are at it again. They are proposing that these accounts be cleaned out, and the taxes paid within 5 years. There would be a couple of exceptions but watch for this one to be part of the tax reform later this year. (Kiplinger Tax Letter 6/7/13)

MANY COUPLES HAVE DIFFERENCES OVER FINANCES: 40% of married people do not completely trust their partner to manage their combined finances. (TD Ameritrade and LearnVest) Another reason we offer 'Pre-marital Financial Counseling'.

REVERSE MORTGAGES ARE NOT ALL BAD! The new product of the reverse mortgage market is called the (HECM) Saver, which works just like the home equity loan (HELOC). The difference is that with HELOC's there's nothing guaranteed. The lender (bank) can change their mind anytime. The Saver is a reverse mortgage that can be established at a modest cost and you are not required to borrow on it, so it will work like a standby home equity loan. If you feel this might be an answer for you to have a guarantee of where you can get either a lump sum or additional monthly income, give us a call and we will put you in touch with a reputable company.

ESTATE PLANNING NO LONGER NEEDED NOW THAT FEDERAL EXEMPTION IS $5,250,000? Not so fast. Yes, as of Jan. 1, 2013 the exemption is $5.25 MM, and if handled properly $10,500,000 for a couple but there are other things that still require estate planning. First, if you live in a state that's exemption is lower than the Federal such as Oregon's $1,000,000, there may still be a tax saving strategy to consider. Second, if your current plan calls for a required 'bypass trust' (also referred to as family trusts or A/B trusts) this could cause your heirs to later pay higher capital gains taxes than they would without the bypass trust. This is because the assets going to the bypass trust do NOT get a step up in basis. And estate planning is not just to dodge the Tax Man, there are many other things to consider such as who will make decisions for you and who will take care of you. So, do meet with your planner and attorney and do a complete review.

USEFUL WEB SITES:

Fitness: Measure and track your progress: www.MayoClinic.com/health/fitness/SM00086

Meeting or event planning: Find out who can attend on which date. www.**meetingwizard**.com/ or http://Doodle.com

Too much spam: Try using a temporary e-mail address when registering on line, it expires in 10 minutes. http://10minutemail.com

Charitable donation pickup: Which organizations will pick up your 'stuff'? www.donationtown.org

Enjoy viewing museums: Try it on line at www.googleartproject.com

Find a thrift store: Search by zip code at www.thethriftshopper.com

IS THE MARKET AT THE TOP? Many of you have heard this from me before but this one is up dated. (If you still have the August 2012 newsletter, see "The Importance of Staying Invested") DON'T TRY TO TIME THE MARKET – STAY WITH WHAT YOU HAVE YOU WILL DO BETTER. And there are real dangers of guessing when to get out or when to get in. For the past 20 years (6/1/1993-5/31/2013) if you invested $10,000 and stayed the course you would have $35, 904. But, if you missed just the 30 best days you would now have only $7,391. YES, that was only missing 30 days out of 7,300 days. And, if you missed the 60 best days you would only have $2,520. (calculated by Phil Diamond, CFA, Chief Investment Advisor of Northwest Asset Management)

The Art of Asset Location

Asset location is a part of the investing strategy that involves deciding which investments to hold in which accounts, and taxes play an important role in this decision. Here are a few basic guidelines.

Hold in Your Tax-Sheltered Accounts: Assets With High Tax Costs. In general, government or corporate bonds and bond funds may be a better fit for tax-sheltered accounts (like IRAs and 401(k)s) than for taxable accounts because their payouts are taxed at an investor's ordinary income tax rate. If you need to hold bonds in your taxable accounts, a municipal bond or municipal bond fund might offer you a better after-tax yield than a taxable bond investment, because income from munis is exempt of federal income taxes.

Hold in Your Taxable Accounts: Assets With Low Tax Costs. By contrast, stocks and stock funds may generally be a better bet for taxable accounts. Long-term capital gains, which is what you have when you sell a stock that you've held for at least a year, are taxed at a lower rate than bond income.

Stocks are not guaranteed and have been more volatile than the other asset classes. Dividends are not guaranteed. Bonds are subject to credit/default risk and interest-rate risk. Municipal bonds may be subject to the alternative minimum tax (AMT) and state and local taxes, and federal taxes apply to any capital gains distributions. Retirement accounts are tax-deferred vehicles designed for retirement savings. Any withdrawals of earnings will be subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. This should not be considered tax or financial planning advice. Please consult a tax and/or financial professional for advice specific to your individual circumstances.

The Importance of Saving for Women

Women face a different set of financial-planning challenges than men because they tend to live longer, earn less, and take more breaks from the work force. Women may also experience more difficulties if they are widowed or divorced. The good news is that women tend to save more. According to Vanguard's "How America Saves 2012" report, women saved at rates about 5% to 10% higher than those of men across every income group. However, even though their savings rates were higher, women's balances in savings accounts tended to be lower than those of men because women, on average, had lower incomes. This illustrates the extreme importance that saving (and starting to do so early) has for women. It's not always easy, but managing debt, controlling expenses, and contributing to a retirement plan can make a world of a difference down the road.

Average Deferral Rates by Income and Gender 2011

Vanguard defined contribution plans permitting employee-elective deferrals

	Female	Male	All
<$30,000	5.1%	4.5%	4.8%
$30,000–$49,999	5.9	5.6	5.8
$50,000–$74,999	7.4	6.9	7.1
$75,000–$99,999	8.9	8.0	8.3
$100,000+	8.8	8.0	8.2

Source: Vanguard, 2012

Retirement Investing Q&A

Q: Under current law, at what age can you begin receiving Social Security benefits?

A: The earliest age at which you can begin receiving Social Security benefits is 62. However, you will receive a reduced benefit if you retire before your full retirement age.

Q: What are some big mistakes that people make concerning their retirement?

A: Not contributing to an IRA, a 401(k), or both is probably the single biggest mistake that is made. 45% of current retirees utilize their personal savings for retirement income; 62% of current workers anticipate personal savings to play a role during retirement.*

Q: What is the maximum contribution to IRAs (both regular and Roth) and 401(k) plans in 2013?

A: If you are age 49 or younger, the maximum contribution is $5,500 for both regular and Roth IRAs, and $17,500 for a 401(k) plan. If you are age 50 or more, the maximum contribution is $6,500 for both regular and Roth IRAs, and $23,000 for a 401(k) plan.

Q: Are distributions (payouts) taxed on regular IRAs, Roth IRAs, and 401(k)s?

A: The short answer is that if you got a tax break on the contribution, you will pay taxes on the subsequent distribution. Contributions to regular IRAs and 401(k)s are generally made with pre-tax dollars (pre-tax contributions reduce your taxable income for the year in which they are made), so distributions are taxed. Roth IRA contributions, however, are made with after-tax dollars, so distributions are generally not taxed.

Q: At what age can you generally begin taking distributions from an IRA or 401(k)?

A: You can begin taking distributions from your regular IRA, Roth IRA, or 401(k) plan at age 59 ½.

Q: Can you roll your 401(k) over into an IRA?

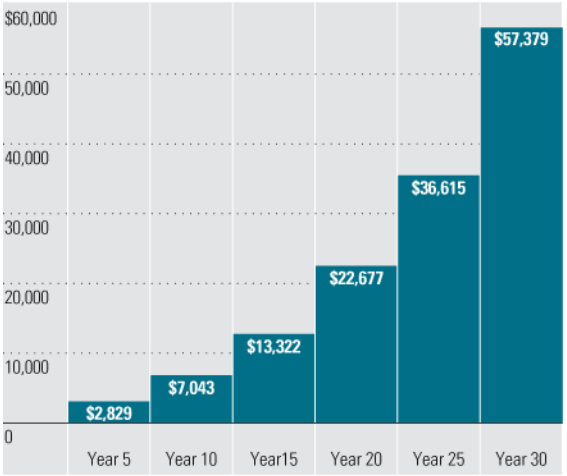
A: Yes. You can move 401(k) balances into a "rollover" IRA account without penalty. This option enables you to keep your money tax deferred, and can potentially increase your investment options, as IRAs are self-directed and 401(k) plans have investment options that are decided by the plan administrator.

Q: How can I begin saving for retirement?

A: Little changes can make huge differences. For instance, have a regular coffee ($1.75) instead of a latte ($3.50) every morning before work. Invest the savings each month ($1.75 X 22 workdays = $38.50), and you could end up with quite a hill of beans!

*Source: Employee Benefit Research Institute, 2012 Retirement Confidence Survey.

A "Latte" Savings



This is for illustrative purposes only and not indicative of any investment. The data assumes reinvestment of all income and does not account for taxes and transaction costs. The image assumes a hypothetical 8% annual return and that savings are invested at month end.

The Flavors of Investing

It is tempting to jump on the investment bandwagon when certain parts of the market soar based on a trend or analyst report. While great potential exists, sector investing can also come with great risk.

As seen in the image, what is hot one year isn't always hot the next. Interested investors should be willing to follow a sector's ups and downs, as timing the market is difficult. Investing in specific sectors can add volatility to a portfolio, but exposure to the right sectors can contribute to improved financial performance. Keep in mind that while sector investing can fill a gap or serve as a speculative play, a balanced asset allocation should be the core of any portfolio.

10-Year Sector Winners and Losers

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Highest return	50.3	38.1	40.8	39.4	32.9	–16.1	61.9	30.5	18.5	32.5
Basic Mat.	41.0	32.1	14.8	36.2	27.5	–23.3	53.6	27.4	13.4	29.1
Comm. Ser.	37.6	23.3	12.2	21.8	17.2	–28.1	50.2	24.9	11.9	24.6
Cons. Cyclical	37.3	19.2	8.1	19.7	16.6	–38.2	35.6	24.2	6.9	19.3
Cons. Def.	34.8	17.9	6.0	17.6	12.6	–38.4	34.0	23.4	5.1	18.6
Energy	32.1	15.4	6.0	15.4	12.0	–39.4	29.3	23.2	4.1	16.5
Financial	26.1	14.4	5.2	15.1	8.0	–39.8	24.0	14.5	0.6	15.3
Health Care	24.7	12.5	3.7	15.0	0.2	–41.2	21.0	13.4	–0.4	13.3
Industrials	19.8	10.1	3.0	11.9	–8.7	–42.0	15.6	11.8	–0.7	10.1
Real Estate	18.9	3.5	–1.4	10.9	–17.9	–48.1	14.5	7.3	–14.1	4.3
Technology	17.4	0.8	–6.0	6.7	–18.3	–51.3	11.8	5.1	–16.5	2.2
Utilities										
Lowest return										

This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Sector investments are narrowly-focused investments that typically exhibit higher volatility than the market in general. Sector investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation. Returns and principal invested in stocks are not guaranteed.

Source: Sectors in this example are represented by the Morningstar Sector Indexes.

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