Simmons Wealth Advisory

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Politics and Investment Performance

With President Obama's first term in office coming to a close, here's the result of an investigation into the relationship between the composition of the legislative and executive branches of the U.S. government and market performance. The "unified" situation refers to years when the Senate, the House of Representatives, and the White House were all controlled by the same party. The "partially divided" situation represents years when the House and Senate were controlled by the same party, but the White House was held by a different party. The "completely divided" situation uses data from years in which the two houses of Congress were divided. Both the S&P 500 and the diversified portfolio (60% stock/40% bond) averaged the highest returns during unified years, lower returns during partially divided years, and the lowest under completely divided years.

Average Annual Returns 1926–2011

	S&P 500	Diversified portfolio	Number of years
"Unified" years	14.8%	9.9%	45
"Partially divided" years	11.1%	9.5%	30
"Completely divided" years	1.1%	7.4%	11

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Diversification does not eliminate the risk of experiencing investment losses. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. The time period examined is 1926–2011, and the returns are average annual returns.

Stocks—represented by the Standard & Poor's 90 index from 1926 through February 1957 and the S&P 500® index thereafter, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general. Bonds—20-year U.S. government bond.

Advisor Corner

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A veteran in the industry, albeit a young one, Mark has developed a distinguished reputation for his approach to financial planning and portfolio management, which have become the foundation of the firm's core philosophy. He has received wide publicity for his investment insight and has been featured in numerous business publications.

A native of Baton Rouge, Mark received a B.S. in Business and Finance from Centenary College of Louisiana. Prior to founding Simmons Asset Management, he maintained positions such as Vice President, Portfolio Manager and Chief Compliance Officer as well as acquiring the Series 7, 24 and 66 licenses.

Mark made the decision to transform a lifelong career into helping people maximize their financial condition by reducing costly mistakes. He formulated Simmons Asset Management whose main goals are to look out for the best interest of investors, while educating them at the same time.

The Tax Man Cometh … Or Does He?

You've probably heard a lot about how the election will affect both the economy and your wallet. What you're probably asking is, "What does this mean for the dividend portion of my portfolio?" To take a step back, the appeal of dividends is not now, and has never been, purely a function of tax policy. Dividends work because they deliver what capital gains can't: consistent cash returns that are always and only positive. Cash flow that you can use to meet your personal investment objectives even if stock prices are down. And, compared with bonds, dividend-paying stocks offer a measure of protection from inflation and a good shot at lasting capital appreciation. This is not to say that taxes are irrelevant, but most of what you're hearing needs to be taken with a grain of salt.

Since 2003, dividends (as well as long-term capital gains) have been taxed at a maximum federal rate of 15%. If the President and Congress do nothing, then the top tax rate on long-term capital gains will revert to 19.8% on New Year's Day 2013, but the top tax rate for dividends will skyrocket to 39.6%. (And this doesn't include the additional 3.8% Medicare tax on investment income for high earners next year) But before you dump all your dividend-paying stocks in fear of a tax hike, consider the following:

1. Will dividend taxes actually go up? That outcome can't be ruled out, but it's worth remembering that in 2003, 2008, and again in 2010, a span encompassing three different congresses and two presidents of differing political affiliations, the current taxation of dividends has been affirmed. A comprehensive tax reform package might involve a more modest tax increase on upper-bracket earners, but neither Republicans nor Democrats actually want the country to roll off the "fiscal cliff".

2. Let's assume the worst: that the pre-2003 tax rules snap back into effect. What's changed? That depends on you. Most investors aren't in the top tax bracket so their tax rates might rise from 15% to 25% or 28%, but the implication that everyone's dividends will be taxed at 39.6%, is simply not true.

3. Two key groups of high-yielding equities, master limited partnerships (MLPs) and real estate investment trusts (REITs), were never eligible for the 15% federal tax rate in the first place, so the treatment of these income streams isn't at risk.

4. Many investors hold the bulk of their stocks (and receive the bulk of their dividends) in tax-deferred accounts like IRAs, Roth accounts and 401(k) plans. What's the impact of a dividend tax hike here? The answer is nothing as the investor only pays tax when money is withdrawn from the account.

5. Even if taxes on dividends go up, what's the alternative? Except for municipal bonds, the interest paid on fixed-income securities is already taxed as ordinary income. Bolting for the bond market would only reduce your tax bill because you would earn much smaller returns!

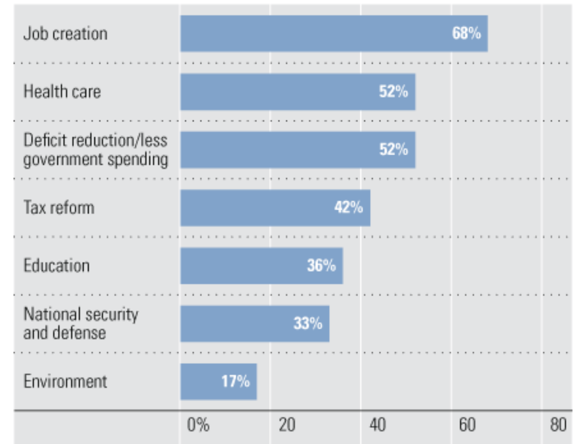
Past performance is no guarantee of future results. Returns and principal invested in stocks or REITs are not guaranteed. Dividends are not guaranteed. A REIT must distribute at least 90% of its taxable income to shareholders annually. REITs involve special risks such as management quality, corporate structure, the ability to increase revenues from rents, and the balance of the supply of new buildings with demand for space. Investments in securities of MLPs involve risks that differ from an investment in common stock, including limited control, cash flow and dilution risks. Funds in a traditional 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, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Authored by Josh Peters, CFA; Chief Equity-Income Strategist; Editor, Morningstar DividendInvestor.

Health Care, a Central Election Issue in 2012

As soon as President Obama signed the Patient Protection and Affordable Care Act into law in 2010, critics and defenders of the legislation started a heated debate, which continues throughout the 2012 election season. Republicans like to point out the program's high cost and how it will likely increase the federal deficit; Democrats argue that short-term benefits of the law have already become apparent, and long-term benefits will include affordable health care to all Americans.

The image displays the percent of consumers who ranked each issue as first, second, or third most important factor in the 2012 presidential election. With the unemployment rate at 8.2% as of April 2012, it's no wonder voters are primarily concerned with job creation. Health care is the second most important factor on the list.

Percent of Consumers Who Ranked This as Most Important Factor

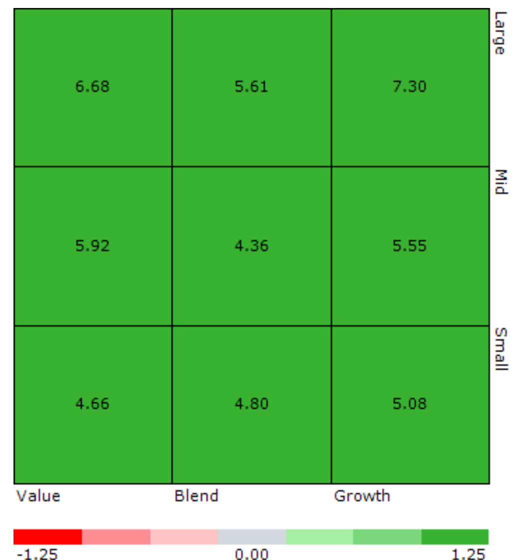


Source: "Top health industry issues of 2012: Connecting in uncertainty," PricewaterhouseCoopers Health Research Institute Report and Consumer Survey, November 2011. Unemployment rate from the Bureau of Labor Statistics.

Quarterly Market Barometer

3 Month, ending September 30, 2012. The U.S. Market returned 6.19% (YTD 16.12%).

The Morningstar Market Barometer provides a visualization of the performance of various stock market indexes. The color scale (red for losses and green for gains) allows you to assess which areas of the market performed strongly and which areas showed weakness for the time period analyzed. The nine-square grid represents stocks classified by size (vertical axis) and style (horizontal axis). There are three investment styles for each size category: small, mid and large. Two of the three style categories are "value" and "growth" while the central column represents the core style (neither value nor growth characteristics dominate). Large-caps account for the top 70% of the capitalization; mid-caps represent the next 20%; and small-caps represent the balance.



Economic Indicators in an Election Year

The 2012 presidential election is in full swing and, as we draw closer to the November 6, 2012 election date, many Americans are wondering which presidential candidate will be better for the economy. The U.S. economy has always been a focal point of elections, and although no crystal ball exists to determine election results (or stock performance, for that matter), economic indicators may show how an incumbent has performed. A strong or improving economy may add more credibility to the incumbent's leadership abilities, which may increase his odds of winning another term in office.

Since President Barack Obama took office in January 2009 in the midst of a recession, through his time in office till now, economic results have been mixed. The unemployment rate has fluctuated, but is now lower from the high of 10% back in October 2009. The S&P 500 has recovered nicely and GDP growth has also improved and held steady over the last 11 quarters.

However, home prices have continued to fall and gas prices to rise. A home is one of the biggest purchases for a family, with most of their wealth tied to their home. Falling home prices negatively impact the net worth of American households and may affect their propensity to spend. Higher gas prices mean people have to spend more money on gas, leaving less money for other discretionary purchases. Finally, interest rates remain at all-time lows as the Federal Reserve attempts to spur economic growth. This makes it difficult for investors to earn any return from saving accounts and other low-yielding investments, offering little reward to risk-averse investors or retirees.

Regardless of the election outcome, the President will probably continue to make economic recovery one of his priorities and, in light of this assumption, investors should expect the low-interest rate environment to continue.

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