Simmons Wealth Advisory

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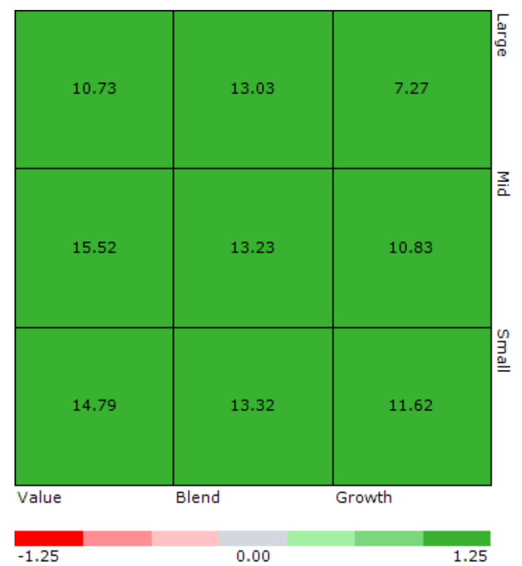
Quarterly Market Barometer



3 Month, ending March 31, 2013. The U.S. Market returned 11.02% (YTD 11.02%).

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.

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, a wealth management firm, whose main goals are to look out for the best interest of investors, while educating them at the same time.

Investment-Related Taxes: Must-Knows for 2013

As 2012 wound down, fairly decent-sized tax hikes loomed for 2013, and tax-savvy investors and their advisors were scrambling. Dividends were set to once again be taxed at ordinary income tax rates, long-term capital gains were to jump to 20%, and estates of more than $1 million would be taxable at a 55% rate. In the end, however, the changes that did pass through Congress were much more modest. That said, maximizing tax-sheltered accounts, putting the right types of assets in tax-sheltered and taxable accounts, and properly sequencing withdrawals in retirement can still help improve after-tax returns. Here's an overview of some key tax-related changes taking effect with the 2013 tax year that may affect investment plans.

Dividend Tax: Although the impending hike in the dividend tax rate had led to a lot of hand-wringing, the modest increase that passed through Congress won't affect most investors. As in the past, investors in the 10% and 15% tax brackets will pay nothing on qualified dividends, and those in the 25%, 28%, 33%, and 35% tax brackets will pay a 15% rate on their qualified dividend income. The only change is for single filers earning more than $400,000 and married couples filing jointly who earn more than $450,000; for them, a new 20% dividend tax rate will kick in starting this year.

In general, it makes sense to place dividend payers in tax-sheltered accounts and reserve taxable accounts for holdings that don't pay dividends. The key reason is loss of control. If a company stock held in a taxable account pays a dividend, that's a taxable event for the investor, whether the investor wanted that dividend or not. (Those who hold a dividend-paying fund owe taxes on any dividends paid out, even if they reinvested those dividends back into the fund.) In contrast, by holding non-dividend payers in taxable accounts, investors won’t owe taxes unless they take action and sell shares.

Tax on Long-Term Capital Gains: As with dividend taxes, much is staying the same with long-term capital gains rates. Those in the 10% and 15% brackets will not owe capital gains tax on securities held for more than a year, while those in the 25%–35% brackets will see their long-term capital gains taxed at a 15% rate.

The 20% capital gains rate will kick in for the same taxpayers who are seeing a dividend tax hike: single filers earning more than $400,000 and married couples filing jointly who earn more than $450,000.

Medicare Surtax: An outgrowth of the new health-care law, this new tax was moving full steam ahead regardless of what happened with the fiscal cliff negotiations. The 3.8% tax will be imposed on the lesser of an individual's net investment income for the year or adjusted gross income in excess of $200,000 for single filers and $250,000 for married taxpayers filing jointly.

Estate Tax: Although the estate tax was poised to affect many more estates starting in 2013, the estate tax exemption will remain over $5 million ($5.25 million, to be exact) per individual, and the top estate tax rate will increase to 40% from 35% last year.

Gift Tax: The annual gift tax exclusion amount is $14,000 for 2013. That means an individual can gift $14,000 apiece to an unlimited number of people this year without having to worry about a gift tax. Savers in 529 college-savings plans can actually gift $70,000 to a single individual in a single year without triggering a gift tax, assuming they make no further contributions to that person's college plan in the subsequent four years. In that case, the Internal Revenue Service assumes that the contribution is spread over five years. Married couples can actually contribute $140,000 to one child's college-savings plan in 2013, assuming they make no further gifts from 2014 through 2017, without triggering the gift tax. Also, when gifting to pay educational or medical expenses, taxpayers can circumvent the gift tax system altogether by making payments directly to the educational or medical institution.

Investing with a Long-Term Focus

It's easy to follow a long-term investment strategy in good times; the hard part is sticking with it during bad times. What should you do if you are a long-term investor sitting in the midst of a bear market? If you are holding a well-diversified portfolio, the answer is rather straightforward: stay the course.

Volatile markets can cause investors to abandon their long-term goals for risky short-term investment strategies. Volatility can range from a single-day market crash to extended periods of jagged performance. The market has undergone cycles with high and low annual returns from 38% (1995) to -37% (2008) over the past 50 years. It can be tough to stay the course in the face of such fluctuations.

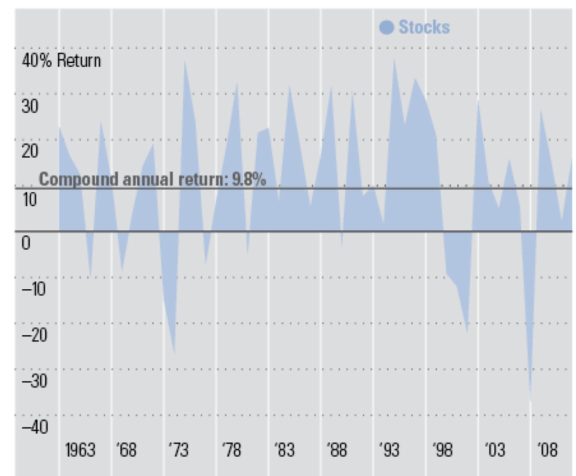
The graph illustrates annual stock market performance since 1963. The bull market from 1991 to 1999 lasted the longest, with an average annual return of 21%. In contrast, a majority of the downturns shown in the image have lasted for shorter periods of time. Despite the ups and downs over the years, the stock market generated a compound annual return of 9.8% over this historical time period.

It goes without saying that the market will head south at times, but history shows that despite this, the market's long-term trend is upward. Consequently, the sooner an individual implements an investment plan, the better. By contributing early and as often as possible to such a plan, an investor's money compounds over time. Compounding is the ability of an asset to generate earnings from previous earnings, which serves to accelerate the growth of your assets as time moves on.

A disciplined investment approach is still the best strategy for handling market downturns. This includes maintaining a well-diversified portfolio and using dollar-cost averaging, instead of lump-sum purchases, to ease into new investments. Dollar-cost averaging involves the purchase of securities, usually mutual funds, in fixed dollar amounts at regular intervals. This strategy is maintained no matter what direction the market is moving. Finally, staying focused on a long-term investment plan may enable you to participate in recoveries.

Overall, the stock market has exhibited positive performance in the past, but be prepared for periods of underperformance. The fact is no one can predict market declines with any type of certainty. As a result, a portfolio consisting of both stocks and bonds can serve as a good strategy for short-term diversification. On the contrary, investors who have a larger appetite for risk may want to consider long-term investments in stocks. With a disciplined approach to investing, one may be able to take advantage of market rebounds and may enjoy superior returns in the long run. Don't be sidelined by market expansions and contractions.

Annual Stock Market Performance: 1963–2012



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. Returns and principal invested in stocks are not guaranteed.

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

Keep Your Cool

The stock market is a fickle thing, and risks are inherent for everyone who puts money in it. Only a few years ago, during the 2007-2009 financial crisis, many investors saw their portfolios melt away under their very eyes in an extremely short period of time.

It's normal to panic in such a situation, but the problem is the following. If you panic, take all your money out of the stock market to cut your losses, and place it into cash, you probably don't have any chance of recuperating your loss ever again, because returns on cash are about as low as you can get in the investment world. If, on the other hand, you keep your cool and stay in the stock market, chances are the crisis will pass and stocks will probably go up in value again. Of course, nothing is guaranteed, but panic won't help you in any case.

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