WINTER 2013

CJM Wealth Advisers, Ltd.

PLANNING WITH PURPOSE

Looking Ahead for 2013

By Brian T. Jones, CFP®

If January is any indication of what we can expect for 2013, it may be time to rethink our models. January 2013 saw the S&P 500 rise more than 5% for the month. The last time the S&P rose that much in January it was 1997. So where do we go from here?

GDP growth of the U.S. was less than 2% in 2012. In 2013 we think this number will be roughly the same, maybe slightly higher. Past recoveries from deep economic recessions have shown GDP growth of 4-6% at this stage in the recovery. Sadly, the "plow horse" economy we find ourselves stuck in appears to be moving forward, albeit at a very slow pace. It does not lead to zero growth or recession, but it also isn't moving anywhere near as fast as we would all like to see it.

Other positives include: the housing market that is continuing to show signs of improvement, the Federal Reserve is keeping a lid on rising interest rates (for now), strong manufacturing sector numbers, strong automobile sales, consumer debt continues to shrink, and earnings season was uneventful (which is a good thing). The really great news for 2013: no Presidential election in the U.S.

The bad news is that millions of Americans remain unemployed (this continues to be a problem whose unintended consequences will be felt in the years to come); corporate profits could start to soften a bit from recent quarters (be wary of CEOs proclaiming "the Fiscal Cliff ate my profits!"); Europe continues to smolder; China may (or may not) be starting to reignite its economy (regardless of what the politically manipulated "official" numbers say); and the U.S. sequestration and debt limit talks will be, to quote Thomas Paine, "nasty, brutish and short". Well maybe not short but since we hit the debt limit soon Congress and the administration will need to make decisions sooner rather than later.

Like prior years, the path to prosperity remains littered with obstacles both big and small. But with every obstacle comes an opportunity, if only we

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Important Date to Remember!!!

Tax Form Distribution Date: February 28, 2013—Over the past few tax seasons, the late reclassification of income and cost-basis adjustments by issuers have required Pershing to distribute multiple versions of IRS Form 1099 (B, DIV, INT, OID, and MISC) to your clients. To avoid this issue and the confusion it may cause, Pershing will delay delivery of the Form 1099 to February 28, 2013.

When Doing Your Own Taxes Makes Sense… And When It Doesn't

Source: The Financial Planning Association

The tax deadline is quickly approaching and if you haven't begun gathering your annual tax records, it's time to do so. Every year, however, people's lives change – they buy and sell houses and move, they take new jobs, have kids, buy and sell stock. Those and dozens more reasons might give you cause to hire a tax preparer.

It's worth going over the primary reasons why some people should get help with their taxes and others can continue going it alone.

Doing it yourself

If you meet the following circumstances, you can probably do your taxes by yourself:

- You work for only one employer who gives you a W-2 tax form each year.
- You earned less than $1,500 in taxable interest.
- You rent your residence and don't own a home or vacation property.
- You don't have kids or other dependents.
- You don't have any complex investments such as a partnership, a trust or extensive stock holdings.
- You really like numbers, are willing to investigate annual changes to the tax code and doublecheck your work.
- You're comfortable doing computations by calculator, by hand or by using tax software on your computer or online.

For do-it-yourselfers with computers, the Internal Revenue Service's (IRS) FreeFile program is aimed at taxpayers with an Adjusted Gross Income (AGI) of $57,000 or less in 2012 to prepare and e-file their federal tax returns for free. E-file, the IRS's online tax filing service, is available to individuals with compatible home computer tax software.

Seeking help

It generally makes more sense to get help with your taxes if:

- You're buying or selling property.
- You own a business or rental property.
- You get regular income from a trust or partnership.
- You trade investments frequently or have a complex portfolio.
- You've undergone a major financial impact during the previous tax year, such as a divorce, death of a spouse, an inheritance or a move of more than 50 miles for a new job.
- You are supporting a child between the ages of 19 and 24 who is a full-time college student.
- You don't have time to do it yourself.
- You are subject to the Alternate Minimum Tax (AMT).
- Your income has increased by a considerable amount from the previous year.

You're still legally responsible for your return even though you have professional help, so it's important to choose a qualified professional to help you. The IRS gives the following suggestions for finding a qualified preparer:

1. **Check the person's qualifications.** Ask if the preparer is affiliated with a professional organization that provides its members with continuing education and resources and holds them to a code of ethics. New regulations required all paid tax return preparers including attorneys, CPAs and enrolled agents to apply for a Preparer Tax Identification Number (PTIN) — even if they already have one — before preparing any federal tax returns in 2012.
2. **Check on the preparer's history.** Check to see if the preparer has a questionable history with the Better Business Bureau and check for any disciplinary actions and licensure status through the state boards of accountancy for certified public accountants; the state bar associations for attorneys; and the IRS Office of Professional Responsibility for enrolled agents.
3. **Find out about their service fees.** Avoid preparers who base their fee on a percentage of your refund or those who claim they can obtain larger refunds than other preparers.
4. **Make sure the tax preparer is accessible.** Make sure you will be able to contact the tax pre-

Kevin's Corner:
Learning From the Past: Second Term Presidency Performance

By Kevin E. Donovan, CFA
Portfolio Research Director

At the start of President Obama's second term in office we thought it would be interesting to see how the stock market performed during the second terms of previous presidents. Of course we cannot predict the performance of the next four years by looking backward. In most cases the policies of an administration do not have a long-term effect on the direction of the market, but it is interesting to see what happened during similar times in our history.

The Standard & Poor's 500 Stock Index was created in 1950 during the Truman administration so let's start by looking at the presidents who served since that time. There were four presidents who served two full terms since then: Dwight Eisenhower, Ronald Reagan, Bill Clinton and George W. Bush.

The stock market did very well during Eisenhower's first term, rising at a compound annual growth rate (CAGR) of 15.1% per year in the years from 1953 to 1956. That would turn out to be the best performance during a president's term for the next forty years. The market cooled down during Ike's second term, increasing at a 5.6% CAGR from 1957 to 1960.

It was twenty years until another president served out both of his terms in office as Lyndon Johnson decided not to run after finishing out Kennedy's term and winning one of his own, Richard Nixon resigned in the middle of his second term, Gerald Ford only served the remainder of Nixon's term and Jimmy Carter failed to win re-election. The market's performance during Ronald Reagan's administration was the inverse of Ike's. In his first term, the S&P 500 rose at a CAGR of 5.4% from 1981 to 1984 and accelerated to 13.5% in his second term from 1985 to 1988. The second term market boom is what people generally remember of this time, not the first term's returns which were actually lower than that during Jimmy Carter's term (6.0%).

The market during Bill Clinton's two terms had outstanding returns. During his first term from 1993 to 1996 the S&P's CAGR was 14.2% per year. Clinton's second term saw an even better return with a CAGR of 15.5%, the best return during any president's term since the S&P 500 was created. Of course, a good part of the boom during 1997 to 2000 was due to the dot-com bubble.

George W. Bush had the dubious distinction of being the only president to have negative returns during both of his terms in office. Some of this had to due with bad timing as his first term began in 2001 as the dot-com bubble was already deflating and his second term ended while the market was plunging during the 2008 financial crisis. We'll leave questions of responsibility aside and note that the market's CAGR during the first term from 2001 to 2004 was a negative 2.1% and was an even worse negative 7.1% during the second term from 2005 to 2008.

The only other negative four-year period was during the Nixon and Ford administrations from 1973 to 1976 when the market's CAGR was a negative 2.3%. The S&P 500's CAGR during President Obama's first term was a respectable 12.1%, which puts him below Eisenhower's and Clinton's first terms, but well ahead of both Reagan and Bush.

So history doesn't give us much to go on here. Two presidents (Reagan and Clinton) saw the market do better in their second terms and two (Eisenhower

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Pro's and Con's of Fiscal Cliff Deal

Lord Abbett (the mutual fund company) provided this easily understandable table laying out the consequences of the most recent fiscal cliff deal. We thought you might find the comparison of pro's and con's of interest.

Table 1. The Tax Deal Has a List of Economic Pluses and Minuses

Economic Pluses of Tax Deal

- Avoids the bulk of tax hikes for individual federal income taxes
- Briefly avoids sequestration of discretionary spending for now
- Maintains the estate tax exemption at up to $5.0 million, indexes for inflation
- Continues Medicare payments to physicians
- Extends unemployment benefits for a year
- Extends the ability of some businesses to expense 50% outlays on equipment for one year
- Provides money for: wind power, ethanol, dairy, Hollywood, Nascar, Puerto Rican Rum

Economic Minuses of Tax Deal

- Raises the income tax rate from 35% to 39.6% for individuals/couples earning more than $400,000/$450,000 a year
- Lifts the tax rates on capital gains and dividend income from 15% to 20%
- Creates uncertainty around the March sequestration (spending) issues
- Ends the payroll tax holiday, lifting the rate on the Social Security tax from 4.2% to 6.2%
- Extends the state sales tax exemption in lieu of income tax for two years
- Maintains affordable care tax hike of 3.8% on investment income
- Maintains Medicare surcharge tax of 0.9% on income over $250,000
- Creates personal exemption phase-outs and itemized deduction limits for individuals/households making $250,000/$300,000

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take the time to focus and plan accordingly. As the investment world focuses more and more on short term investment results ("how much did you LOSE in today's market" squawk the market experts every night on TV), we remain committed to the next 3, 5 and 10 years down the road. We believe that client portfolios should remain balanced to best manage market volatility. We try to manage stock market volatility and think of it not as a problem, but as an opportunity to buy assets while they are "on sale" today, knowing that tomorrow (maybe even next week) we will find better days.

We are hopeful that 2013 builds on the investment successes we witnessed in January and last year. It will not be easy and it will not be without its surprises, nor its downturns. But we believe that things are continuing to slowly improve, and there is opportunity for investors who remain patient and focused on tomorrow.

parer after the return has been filed, even after the April due date, in case questions arise.

5. **Provide all records and receipts needed to prepare your return.** Most reputable preparers will request to see your records and receipts and will ask you multiple questions to determine your total income and your qualifications for expenses, deductions and other items.
6. **Never sign a blank return.** Avoid tax preparers that ask you to sign a blank tax form.
7. **Review the entire return before signing it.** Before you sign your tax return, review it and ask questions. Make sure you understand everything and are comfortable with the accuracy of the return before you sign it.
8. **Make sure the preparer signs the form and includes their PTIN.** A paid preparer must sign the return and include their PTIN as required by law. Although the preparer signs the return, you are responsible for the accuracy of every item on your return. The preparer must also give you a copy of the return.

Whether you decide to prepare your taxes yourself or you seek help from a professional, we are here to help you with tax information that is part of your investment plan. We are also able to help refer you to a qualified CPA. Feel free to give your planner a call for assistance.

CJM Insights from the Financial Planning Association 2013 Winter Symposium

By Parker Trasborg, CFP®

On Friday, February 1st, the Planners of CJM attended the Financial Planning Association of the National Capital Area's Annual Winter Symposium. The Symposium consisted of several speakers and focused on Economic and Political Updates as well as Ethics. Of particular interest was Greg Valliere. Greg is the chief political strategist at Potomac Research Group, an independent research firm providing Washington policy and market analysis to investors and appears on CNBC frequently.

He stated that there were many positives right now and made some predictions for the future. Greg expects to see unemployment reach 7% one year from today and does not see inflation being a problem in the immediate future. Believe it or not, the Federal budget deficit is actually declining from where it has been. Currently, there is a mood of fiscal restraint in Washington and he doesn't expect to see any new large spending. The auto industry is on the road to recovery and the housing market has finally bottomed. Corporate balance sheets are looking healthy and are "probably the best of our lifetime." There will be a continued surge in US energy production coming from Natural Gas and Oil Shale.

Unfortunately, not all is positive and there is a chance for some headwinds in the future. He predicts that the Fed may begin to back off on their Mortgage Purchases from QE3 around Thanksgiving. Greg believes the markets may overreact to this news. He is fearful of the Middle East and stated that Iran may have a crude nuclear bomb by this summer. This increases the chance of an Israeli strike and would be very negative on markets for several weeks.

Overall, Greg says that he is starting to see the clouds lift and that things are getting better. He noted that the media industry is all about ratings and subscriptions but they need fear in order to drive growth. It is very easy to get caught up in the day to day headlines, but on the whole things are looking positive.

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and Bush) saw it do worse. The table below lists the CAGR for the S&P 500 for each president's term of office since Eisenhower.

Eisenhower 1953-1956	+15.12%	Reagan 1985-1988	+13.52%
Eisenhower 1957-1960	+5.63%	George H.W. Bush 1989-1992	+11.92%
Kennedy/Johnson 1961-1964	+9.89%	Clinton 1993-1996	+14.19%
Johnson 1965-1968	+5.21%	Clinton 1997-2000	+15.54%
Nixon 1969-1972	+3.25%	George W. Bush 2001-2004	-2.12%
Nixon/Ford 1973-1976	-2.32%	George W. Bush 2005-2008	-7.09%
Carter 1977-1980	+6.02%	Obama 2009-2012	+12.10%
Reagan 1981-1984	+5.35%		

Since 1978, CJM Wealth Advisers, Ltd. has been working with affluent individuals, families and business owners to address financial concerns no matter how acute or broad they may be. With a collective focus on helping our clients live the life they want, we understand that financial planning needs to be done with a purpose in mind. Otherwise, what is the use of planning at all? At CJM Wealth Advisers, Ltd., we believe in planning with purpose.

What is your purpose? Is it to...

...create a retirement income stream to last a lifetime?
...minimize investment risk and maximize return?
...prudently plan a legacy for your heirs?
...carefully position a business for a future sale?

We offer our clients real solutions by being objective and approachable while delivering excellent client service.

Opinions expressed are not intended as investment advice or to predict future performance. All information is believed to be from reliable sources: however we make no representation as to its completeness and accuracy.
All economic and performance information is historical and not indicative of future results. You cannot invest directly in an index.
Past performance does not guarantee future results.

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