The Capital Source

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Special Points of Interest:

- Happy End of 2012 Tax Season! We apologize for the late mailing of your quarterly statements and newsletter. The 2012 tax season kept us quite busy!
- If you failed to file your 2012 tax return by April 15th please do so as soon as possible to avoid additional penalties and interest. Should you need assistance with filing your return contact Holly at Hollly@yourwealth.com.
- As many of you know, Natalie Lee will be leaving us May 17th. She was recently married and will be joining her husband, Daniel, in South Korea as he serves in the Army. Please join us in thanking Natalie for her many years of service. She will be greatly missed.
- Please join us in welcoming our newest member of CIA. Kellie Carter started a few months ago and is currently the assistant to Tom Moore, Curt Klein, and Ryan Ely. Welcome to the team Kellie!

Inside this issue:

Estate Planning Considerations —Year 2013 and Beyond

By: Bill Cibulas, Esq.

The 2012 year-end "fiscal cliff" had a minimal impact on most estate plans. The federal estate tax limit remains at over Five Million Dollars per person and state estate tax is not a concern for Georgia residents. Furthermore, lawmakers kept "portability" intact so the surviving spouse in a marriage essentially "inherits" the deceased spouse's unused estate tax exemption. This essentially means that a married couple with assets valued at Ten Million Dollars would not be subject to estate tax if one or both were to suddenly pass.

With this brief update out of the way, it is always important to have some sort of an estate plan (and disability plan for that matter) in place. The reason is because accidents do happen, and I can personally attest to seeing more accidents and untimely events than most people would think naturally occur. With that being said, and taking into account the aforementioned current environment of today's estate laws, it is still my opinion that most individuals should at least have a Will in place, along with a Financial and Medical Power of Attorney. The reason for this is that the relatively small cost of constructing these legal documents greatly outweighs the costs of not having them in place if/when they would be needed. A Guardianship or Conservatorship proceeding in case of a sudden incapacity, or administering an Intestate Estate (dying without a Will), would all require more time, money, and effort than constructing a very basic estate plan. Of course, by constructing your own estate plan you also make your own choices, instead of a court, which will make them for you in the absence thereof.

Children complicate matters…of course. If you have children (from newborns to young adults) it is also important to have a trust in place. If you have a sizeable life insurance policy, or valuable assets of any kind, do you want your children to have legal ownership of those resources while they are undergrads at UGA (or Tech, State, Emory, Southern…does it really matter)? Establishing a basic trust is a cost effective way to put restrictions on situations like this and to appoint a Trustee to responsibly care for your assets until your children are mature enough to inherit them. You can place your assets, life insurance, retirement accounts, and anything else you want into this trust -- not now (unless you want to), but only in the event something happens to both parents.

I recommend that anyone with a diversified asset portfolio review his/her estate plan at least upon major life events and large-scale changes in the law. At such times you should also check to make sure beneficiaries to your retirement accounts and life insurance policies are correctly designated (this is especially true in the event of a divorce). Furthermore, as the future plays out you may need to consider whether any adult children would benefit from restrictions on inheritance, as a trust can also include creditor protections and installment disbursements. In summary, to effectively strategize for life's challenges, estate plans should be (1) constructed, and (2) reviewed periodically to ensure the plan accurately reflects your intentions.

For more information, contact The Law Office of William Cibulas at 404-419-7065 or Bill@yourwealthtax.com. Bill's office is conveniently located in the same building as CIA. He will be more than willing to answer any legal questions or concerns that you may have.

What Lies Ahead?

The first quarter of 2013 was a continuation of the bullish run we have seen as of late. There was little getting in the way of these markets.

The sequestration worries weren't able to derail this rally nor were the worries of a possible government shutdown. Worries in Europe put a slight chill within the marketplace, but even the thoughts of contagion due to the issues in Cyprus were unable to water down the markets' rally.

The bigger question now lies in what does the immediate future hold for these markets. Headline risk seems lesser than what we have experienced in the past, but that doesn't mean all is clear for these markets.

Looking at history, we can't expect to see a repeat of this past quarter's performance. Going back to 2000, we have seen double digit quarterly returns only three times (pre-2009 bottom). The best return we saw in the following quarter was 3.82%; the other two quarters we saw returns of 3.22% and -0.92%. Looking post-2009 bottom we have seen four double digit quarterly returns and only one of those was followed by another double digit quarterly return.

But just because history suggests that we are in for a more muted quarter doesn't mean that markets are doomed to take a turn for the worst. What the history shows is that markets are just poised to take breathers after such strong run-ups, and it doesn't suggest that the fundamentals are of concern. Rather, just as markets don't fall forever, they also don't rise forever.

Heading into the next quarter, we see some worries, but they aren't as obvious as others we have had to deal with in the past. There aren't any fiscal cliffs or sequestration dates currently on the table. And we don't have an immediate need to have a debt ceiling conversation. With the events in Cyprus, we are likely to see Europe creep back into the headlines and cause some headline volatility. Worries over Spain and Italy adopting the type of bailout Cyprus enacted will likely cause for depositors to remain on the edge of their seats.

The catalyst to a possible correction could be companies not meeting earnings expectations. This has been the go to reason for analysts calling for a correction the past several quarters. Given the current rise in the markets and the current scarcity of news (relative to past quarters), focus will likely turn more to companies and analysts will be sure to scrutinize each and every line item.

Economic CHIME

Confidence:

- *Investor confidence rebounded in the first quarter and reached some very optimistic levels.*

Housing:

- *Housing continues to improve as new, pending and existing sales rose, while prices and permits continued to improve.*

Inflation:

- *Continues to be an issue that is on the back burner as PPI and CPI were up only slightly and other indicators were flat.*

Manufacturing:

- *Manufacturing rebounded to signaling growth in the sector; while the services sector remained muted.*

Employment:

- *Employment improved over the quarter, as private sector added jobs at an increased pace and initial claims trended lower.*

A Longer Term Perspective

Markets may not have the anticipation of headlines heading into the new quarter like they have had in the past, but that doesn't mean there isn't excitement for Q2. Investors were sad to see the first quarter end but they are now looking forward trying to repeat the returns. But we were reminded of the fragility of the markets late in the quarter when Europe re-entered the headlines and caused investors to scurry for cover.

Looking at the markets longer term, we continue to see a marketplace that poses more opportunities on relatively firmer footings than in the past. We have yet to see that rocket type rise in GDP growth, but corporations and individuals continue to de-lever and strengthen their financial positions. Individuals' net worth is less than $2 trillion from all time highs, which is a drastic improvement from the lulls of the 07-08 time period. But despite these all-time high levels, investors continue to be in a mentality of asking what is the next shoe to fall. There is little faith in the stability of these markets and their current run higher. Investors still have 2008 on their minds and rightfully so. And as we head into a new quarter, after watching both indices close at levels never before seen, investors remain wary.

But despite these new highs, investors still stand poised to profit in these markets longer term. The moment that an investor begins to try and be a day trader to time the market is when he will likely lose, but setting realistic goals for the future will allow investors to position themselves for success. It is hard, despite market history, to not believe that after 13 years of a flat (to down) market that we will not be higher three, five or 10 years from now. And if this is, in fact, true (markets being higher), then investing today (even at all time highs) should be profitable if invested in a diversified manner.

> "The return we saw in Q1 may be the biggest we see all year, but that doesn't mean that opportunities don't exist in the marketplace ."

The recent quarter should also provide income investors with some sense of relief. Despite the markets rally, the 10-year yield only advanced nine basis points on the quarter. What this shows is that as long as the Fed stays dovish, bond holders will see minimal impact due to rising rates. And as the economic environment strengthens, we will likely begin to get a clearer picture of how the Fed plans to exit their current easing stance. This should help to lessen the impact on current bond holders.

So, as we head into the new quarter and the rest of the year, we continue to remain bullish on the markets longer term. The return we saw in Q1 may be the biggest we see all year, but that doesn't mean that opportunities don't exist in the marketplace. As the Fed remains committed to a zero interest rate environment, we continue to find opportunities within real estate and higher yielding income investments to position income-oriented investors. On the growth side, we continue to be committed to companies that have been able to continue increasing dividends. We have also seen some positive trends in the industrials sector. And natural gas was able to make a comeback in Q1 and looks to steady itself off of the lower levels that we experienced in 2012.

As we look to the longer term, we continue to believe in diversifying within both major buckets of our allocations, growth and income. Within the growth allocation, opportunities still present themselves as the market looks as if it is more fairly valued (fundamentally) than overvalued. And within the income space, getting exposure to traditional fixed income, along with closed end funds, royalty trusts, MLPs, REITs and preferreds still allows for portfolios to garner greater yields. Thus, as we diversify portfolios, we are able to turn large headlines into blips and thus allow our portfolios to best navigate these uncertain times.

CAPITAL INVESTMENT ADVISORS

200 Sandy Springs Place
Suite 300
Atlanta, GA 30328

Phone: 404-531-0018
Fax: 404-531-0010
E-mail: radio@yourwealth.com

Check out Our Website
www.yourwealth.com

Follow us:

Facebook:
CIA – Yourwealth.com
WesMossMoneyMatters

Twitter:
@yourwealth
@wesmossWSB

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Why Cyprus Won't Happen Here

By: Wes Moss CFP®

People have been jittery about the Greek economy for some time. But Cyprus, the tiny island country off the coast of Greece, recently sent people from all around the world into panic mode.

It's a bit like Chicken Little to be fretting over the finances of a tiny republic in the Mediterranean when the S&P 500 finished on March 28 above its all-time highest close – marking a full recovery from the financial crisis that wiped out more than $10 trillion in equity value -- but since you asked: Could Cyprus' problems, like Greece's, spread like a virus over Europe and topple the world economy back into deep recession?

In a word, No. Cyprus is a tiny country. Its GDP is only about $24 billion. To put that into perspective, that's about one-quarter of the cash Apple has sitting in the bank. Yes, Apple could bail out Cyprus.

Cyprus' trouble stems from its status as a banking center and tax haven for Russia. The country's low 10 percent corporate tax rate brought more than $162 billion in assets – seven times the country's GDP – flowing into Cyprus like a river of Retsina wine.

The entire economy grew dependent on wealthy Russians. There was very little growth elsewhere. And as a savvy investor you know how important diversification is. When the Cypriot government overspent, it had no place to turn except the banking sector. So the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Union (EU) came to the rescue. And many Cypriot depositors are out of luck. People with more than 100,000 Euros, or $131,000, in Cypriot banks will have to give up between 10 and 60 percent of their savings to "jointly" bailout the nation, along with the assistance of the IMF.

Cyprus is a sad reminder of the importance of organic and sustainable growth. No country – and indeed, no individual investor – should rely on just one industry sector or just one country for its livelihood.

What happens next? Money will flee Cyprus for some other tax haven, and the country will sink into a deep depression like Greece.

But we're not Greece. And we're not Cyprus. Can you imagine the protests in Washington if the government took our bank deposits to pay their bills? I'd charter a whole caravan of buses from Atlanta, and I'll bet many of you would join me.

No, our government will continue to fund its debt by raising taxes, reducing government spending and cutting into entitlements like Social Security and Medicare.

That may not be good news for all. But it's a lot better news than Cypriots woke up to recently. And sometimes, you have to take the good news where you can get it.

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