StoneRidge Wealth Management

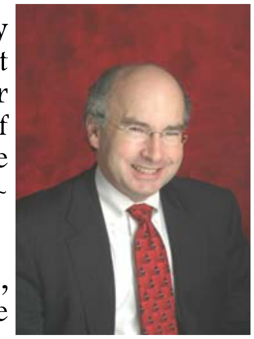
October 2012

The Quarterly Profit

Looking Forward

Let's try to make some sense of the global economies, and what we might expect from the markets as we proceed through the fourth quarter and into the New Year. The financial press continues to caution that the recent "bull rally" might not hold up against a global slowdown. I can't help but wonder what rally they are referring to? Why would we classify a grinding crawl from last October's hole as a bull rally? The Dow hit 12,800 in mid-summer of 2011, which was then the highest level attained since the recovery started in March of 2009. (compliance requires me to state that the Dow is not a security and that past performance does not guarantee future return) The European credit crisis then sent us into an 18% tailspin, while Congress played it's shocking game of "Chicken" with the debt ceiling debate. We crash-landed last October with the Dow at 10,650 and it's taken us a year to reach the 13,500 mark. We're only 5.5% ahead of last summer's high! This is not exactly a home run, but considering the volatility since 2008, we'll take whatever small-ball we can get. So here we sit with the Dow hovering between 13,000 and 13,500 and wondering whether or not we have reached some level of market balance. Looking forward, we must consider the continuing credit crisis in the European Union, the global slowdown, and the "fiscal cliff" .

First, the European Credit Crisis. Before January 2010, we really never thought much about Greece, other than it being the cradle of Western Civilization and a fun place to vacation. Since 2010, we've been regularly slapped around by the E.U. credit crisis as it spread from Greece throughout the European Union. With the exception of our debt ceiling debates last summer and the tragedy in Japan early in 2011, virtually every market setback since January 2010 has been caused by the E.U. debt crisis. However, a safety net finally seems to be in place. In the last few weeks, the European Central Bank has committed to be the "buyer of last resort" of the troubled E.U. nation's bonds, and Germany's Congress and Supreme Court both ratified Germany's involvement. While the underlying issues in the E.U. haven't been resolved, and a full recovery may take years, it appears that our markets will no longer face the same degree of risk that existed before the E.U. Central Bank's decision.



The E.U.'s credit crisis, coupled with the severe austerity sanctions imposed upon the less credit worthy nations, (Portugal, Italy, Ireland, Greece and Spain) has caused a recession in Europe that has reverberated across Asia, stalling the global economies. The obvious question is to what degree will this global slowing affect our own economic recovery and the market values of our investment portfolios? My personal opinion is that we should be fully cognizant of the problem, but not necessarily alarmed. Recessions and slowdowns usually do not last more than a year, and are often followed by periods of sustained recovery. We have attempted to soften the impact of this slowing by reducing and/or eliminating the emerging markets stocks from your portfolios, and emphasizing U.S. dividend paying stocks, and several categories of bonds.

At the risk of sounding overly optimistic, I believe that our own economy has turned a positive corner and will continue on a slow recovery track despite the global slowing. While many commentators express concern over China's reduced rate of growth, the fact remains that China is still growing at a significantly greater rate than any other nation, including our own. And to some degree, our markets have already adjusted to the global slowing, just as they have to Europe's recession. As a positive balance, I am encouraged by our increases in building permits, housing starts, new car sales, and employment numbers. No matter how slow the recovery may be, we can work with positive trending.

I expect that the markets will be temporarily rattled by the pending "Fiscal Cliff", and the atmosphere of uncertainty that will build until Congress actually begins to solve our frightening debt crisis. Congress will only have about a month between the November elections and January 1, 2013,

Strategic Corner

Looking Forward (continued)

when the Bush Tax Cuts will expire, and the Federal spending caps will begin. It is highly unlikely that any substantive measures will be enacted during this time, although we may expect loud posturing, chest thumping, and lines in the sand. At the last minute, Congress will undoubtedly vote to keep the tax policies as they are, and to delay any spending caps until later in the year. The global markets will again look at the U.S. with a sense of loss, and wonder why we can't come together, as we have in the past, to solve our social and economic problems. My personal opinion is that our fiscal issues are now so serious that bipartisan solutions will develop within the next few years. Extreme positions on both sides will be forced to take more moderate positions, and our economy will then begin to surge.

As we look towards the first half of 2013, I expect the U.S economy to continue on it's slow pace of recovery. We may expect continued market volatility along the way, but I don't expect dramatic drops as in July of 2011. Let's continue to adjust our portfolios as we search for that "sweet spot" between safety and growth.

Van Mason, CFP™, CLU, MBA

Happy Birthday 70 1/2 Year Old!

You turned 70 ½ this year. Happy Birthday! The IRS has a plan for you and your IRA account; it requires that you begin taking distributions before December 31 of this year, and paying taxes on that distribution by April, 2013. Let's start with how to figure your 70 ½ birthday. If you turn 70 in 2012, add six months to your birthdate. If that date is within the 2012 calendar, then you are officially 70 ½ this year. If that six months lands in 2013, then forget it, you don't have to take any distributions until the end of 2013. If you are 70 ½ in 2012, the IRS doesn't actually require the distribution until April 1 of 2013. But if you wait, you will have to take a second distribution by December 31 of 2013, setting the stage for a possible jump to the next tax bracket. So, our advice is to simply take the distribution in the year you turn 70 ½.

The calculation of your Required Minimum Distribution (RMD) is simple enough. There is an IRS table that shows the percentage you must take each year, based upon your IRA account(s) balance on December 31 of the previous year. In the first year, you are only required to take 3.65%. This annual percentage increases each year so in theory, you will have distributed all of your IRA by the time you reach your 100th birthday. Just so you know that the IRS is always on your side, buried in the code is a provision that says when you reach the age of 115, you don't have to take any further distributions. How about that!

The RMD rules get a little confusing when the IRA participant dies. The deceased participant's IRA account must make the same distribution in the year of death that would have been made, had the participant lived. In the confusion and anxiety surrounding death, it is not uncommon for these distributions to be overlooked until the next year. If the distribution is not made on time, there will be a 50% penalty on the distribution that should have been made.

Each year StoneRidge calculates the Required Minimum Distributions you must take from your IRA accounts. Many of you will have already satisfied your requirements, because you are taking regular distributions throughout the year, or have taken one or more lump sums. For those of you who have not yet taken the minimum amount necessary, or have just turned 70 ½ in 2013, there is no need to call in advance.

We'll be notifying you early in November, verifying the required distributions, and making sure it happens on time.

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