Argus Financial Consultants

A. Christopher Engle, LUTCF, CFP®, ChFC®, AEP®

Ryan P. Smith, ChFC®, CASL™, CFP®

Brian C. Sandberg, ChFC®

Peter M. Smith

971 Spaulding SE, Suite B
Ada, MI 49301

616.949.8300

www.EyeOnArgus.com

Hello Everyone,

This quarter we would like to introduce our new Client Services Associate, Hailey Mills. Hailey is from Rockford and is a senior at Aquinas College. We look forward to having her help us continue to enhance the Argus Financial Consultants client experience!

If you are inspired to read more financial information, visit our Learning Center at www.EyeOnArgus.com.

Please feel free to suggest topics by sending your suggestion to Joy at joy@EyeOnArgus.com.

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ARGUS FINANCIAL CONSULTANTS

Excellence is Defined by the Success of Our Clients

Winter 2013

The Year Pessimism Got Skunked...Again

The election. The fiscal cliff. The national debt. The federal deficit. Slow (to non-existent) economic growth. Chronically high unemployment. Superstorm Sandy, the east coast's Katrina. Impending tax increases. The euro plague, leapfrogging from Greece to Spain, next perhaps to Italy and even France. The weak dollar. The Federal Reserve continuing to push on a string. The China slowdown. The LIBOR scandal. The Facebook IPO fiasco. Yet another new strain of flu virus. The end of the world foretold by the Mayan calendar. Two thousand twelve was certainly a banner year for catastrophe, was it not?

How very odd, then, that the broad equity market—which started the year at 1277 on the S&P 500 and has flirted with 1450 as I write on the winter solstice—so signally failed to get the message. With dividends, it seems to be on track to have returned something like fourteen percent in this seemingly most relentlessly dismal of years. How shall we account to ourselves for this dichotomy, which seems on its face not merely inexplicable but downright weird? Well, I can think of two possible explanations.

The first and most obvious is that the stock market is just dead wrong: that it has recklessly ignored the plethora of real and impending disasters that are bearing down on us with each passing day, and which will surely swamp our economy and precipitate a market meltdown…any day now. For simplicity's sake, let's call this Door Number One: Pessimists Right, Market Wrong.

But then there's that other possibility. Which is, of course, that the pessimists have not just been momentarily wrong: they've been fundamentally—and perhaps fatally—wrong about the whole equation. They have, in short, been focusing entirely on the fiscal, monetary and economic mistakes of ***countries***. But the equity market—as is its wont—has been much more narrowly focused on the variables which always ultimately drive it: the healthy, growing (and by some measures record-breaking) earnings, cash flows, dividends and cash positions of ***companies***. We'll call this, as I'm sure you've already anticipated, Door Number Two: Market Right, Pessimists Wrong.

This is just one armchair observer's opinion, you understand, but—as I have all along—I'm going with Door Number Two. And thereby hangs a tale.

It is fashionable in pessimist circles to note that the equity market as denominated in the Standard & Poor's 500-Stock Index is closing out 2012 just about exactly where it ended 1999, in the mid 1400s—having all these years "done nothing." This observation, narrowly correct as it clearly is, misses a couple of important things.

The first of these is, of course, that at the close of 1999 the market was within weeks of the bitter end of its greatest two-decade run of all time, during which the Index had gone up quite a bit more than ten times. It was at that point, by any and perhaps every measure, way ahead of itself.

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The second and to me even more telling point is that while the Index has been, on net, treading water for these unlucky thirteen years, the earnings and dividends of its five hundred component companies have essentially doubled. (As the late American philosopher Charles Dillon Stengel always said: "You could look it up.") OK, technically the earnings have a tad more than doubled, and the dividends a tad less, but the point is made: the prices of the great companies in America and the world relative to their earnings and dividends have to all intents and purposes halved, lo these thirteen years past.

One may therefore suggest, not unreasonably, the possibility that the market may in these thirteen years have gotten almost as far behind itself as it was ahead of itself in 1999. And that what it has been doing in 2012 is playing catch-up.

And there is perhaps more to this thesis than most investors may suspect. At the end of 1999, the S&P 500 was completing a year in which it earned about $50. Dividing those earnings by 1450, the Index's earnings yield stood at 3.5%—at a moment when the yield on the 10-year U.S. Treasury bond (though falling rapidly) was still around 5%. It could have been argued (and in fact this thesis turned out to be the correct one) that the bond was a better value, or at least a very competitive safe haven.

Today near 1450, with earnings in excess of $100, the S&P 500's earnings yield is about 6.7%, while the 10-year Treasury's is 1.8%, suggesting that the relative values of stocks and bonds have very sharply reversed since 1999. And that's not all.

Dig a little deeper, and we discover a couple of very intriguing facts about dividends. The more obvious of these is that—for only the second time since 1958—the current dividend yield of the S&P 500, at slightly higher than 2%, is greater than that of the 10-year Treasury. (The only other time this has happened was during the Great Panic of 2008-09.)

More obscurely but perhaps more importantly in the longer run, since 1871 the average dividend payout ratio—the percentage of their earnings that companies paid to shareholders as dividends—has been 53%. It's currently 29%. This certainly doesn't insure that companies will be significantly raising their dividends anytime soon. But it tells us that, at least historically, they have a lot of room to do so—or to buy back stock, which is simply enhancing shareholder value by another means.

Set aside the staggering economic progress of the developing world—China, India, Brazil and the like—in these thirteen years. Set aside the fact that the cost of computing has fallen by something like 98% since 1999, thereby empowering the rise of a billion global smartphone users. Set aside the stunning reality that the United States has gone from the most abject dependence on foreign oil to a point where it will emerge as the world's leading oil producer by 2020.

And set aside, if you can, the inarguable fact that the fiscal conditions of the West's democracies are an unholy mess. Tocque-ville said it 170 years ago, and it's never been truer than it is today: "A democracy will always vote itself more benefits than it is prepared to produce." Set this aside, I say, because as they become almost daily more genuinely global, the great companies become progressively less dependent on the economies of the older democracies on both sides of the Atlantic. At his confirmation hearings in 1953, President Eisenhower's nominee for secretary of defense could opine (if not in so many words) that what was good for General Motors was good for this country. In 2013, General Motors will sell as many cars in China as it does in the United States. This is not your father's Oldsmobile, and it isn't his stock market, either.

Especially if you have a personal predilection to pessimism, the turn of the year might be a good time to ask yourself—or, even better, to ask your financial advisor—whether, in fact, it might be the market that's right and the pessimists who are wrong. In terms of your own financial planning, and especially of your retirement income planning, this could turn out to be the single most important financial question you ask in 2013.

Social Security Tip

Those who are receiving Social Security or Supplemental Security Income (SSI) are receiving a 1.7% cost of living increase. Those receiving SSI should have noticed the increase in their December 31, 2012 payment. Social Security recipients should have noticed the increase in their January 2013 check.

2013 Tax Changes

- Beginning in tax year 2013 (generally for tax returns filed in 2014), a new tax rate of 39.6% has been added for individuals whose income exceeds $400,000 ($450,000 for married taxpayers filing a joint return). The other marginal rates – 10,15,25,28,33 and 35% – remain the same as in prior years.
- The 2% Social Security tax cut was not extended to 2013.
- The standard deduction for tax year 2012 rose to $6,100 ($12,200 for married couples filing jointly), up from $5,950 ($11,900 for married couples filing jointly).
- The American Taxpayer Relief Act of 2012 added a limitation for itemized deductions claimed on 2013 returns for individuals with incomes of $250,000 or more ($300,000 for married couples filing jointly).
- The personal exemption rose to $3,900, up from the 2012 exemption of $3,800; however, beginning in 2013, the exemption is subject to

phase-out that begins with adjusted gross incomes of $150,000 ($300,000 for married couples filing jointly). It phases out completely at $211,250 ($422,500 for married couples filing jointly).
- The Alternative Minimum Tax exemption amount for tax year 2013 is $51,900 ($80,800 for married couples filing jointly), set by the American Taxpayer Relief Act of 2012, which indexes future amounts for inflation. The 2012 exemption amount was $50,600 ($78,750 for married couples filing jointly).
- The maximum Earned Income Credit amount is $6,044 for taxpayers filing jointly who have 3 or more qualifying children, up from $5,891 for tax year 2012.
- Estates of decedents who die during 2013 have a basic exclusion amount of $5,250,000, up from a total of $5,120,000 for estates of those who died in 2012.

Submitted by Troy A Ginzer, CPA
Tag Accounting & Tax Services
troy@tagcpa.net

Some Clarity on the Estate Tax Law

After several years of uncertainty associated with the estate tax, a consensus was reached in congress at the end of 2012. The new law prevents one aspect of the much feared "fiscal cliff" which would have potentially caused estates as small as $1,000,000 to be subject to an estate tax of 55%.

Here are some of the key provisions of the new law:

- An estate exemption of $5,000,000 was adopted for 2011. This exemption is automatically adjusted for inflation. In 2013, the exemption will be $5,250,000.
- A top marginal estate and gift tax rate of 40%.
- The "portability" feature was made permanent. Portability allows the surviving spouse the ability to use the unused portion of his or her deceased spouse's estate tax exemption. This may allow married couples with estates smaller than $5,250,000 (the exemption amount) to simplify their estates plans by eliminating the need for multiple trusts.

Now that we have some clarity, it is a good time to review your estate planning. Many estate plans may be simplified under the new law. As we review financial plans with our clients, we will be discussing the impact on the estate plans. This article contains general information only. Changes to your estate plan should be discussed with a qualified estate planning attorney.

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2013 Contribution Limits

	Maximum Contribution	Catch-Up Contribution*	Total Contribution with Catch-Up
401(k) & 403(b)	$17,500	$5,500	$23,000
Simple IRA	$11,500	$2,500	$14,000
IRA & Roth IRA	$5,500	$1,000	$6,500
HSA	$6,450	$1,000	$7,450

**Those who reach age 50 by year-end can contribute the additional catch-up contribution amount in 2013.*

Annual Gift Tax Exclusion	$14,000

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