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OUTLOOK FOR THE YEAR AHEAD: Taxes, Health Care and Home Values
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We are beginning the sixth year of recovery from the Great Recession. It is interesting to hear different perspectives on how we are doing, as an economy, an investor, employee or consumer. There are varying degrees of lukewarm satisfaction and an actual bi-polar affect when it comes to housing or the stock market, depending on your wealth status.

Last year was a great year for investors, if they were participating in growth vehicles. It was an average year for homeowners who saw their values rising gradually. The unemployment rate dropped below seven percent, yet everyone seems to know someone who remains unemployed. This is a story of the haves and the have-nots. It appears our middle class is parting down the middle and the wealth accumulation soars for the top half while conditions continue to worsen for the bottom half.

The housing market is a good example. If you are trying to sell a beginner house, it is difficult for new buyers to qualify and many continue to rent. If you are selling a property over a million dollars, buyers can afford to be picky and many properties in certain regions remain unsold. If you are in the Goldilocks house then you probably enjoyed rising home values during the last year. Housing experts caution that while the momentum is likely to continue, it could be at a slower pace in 2014.

Investments are another good example of winners and losers. Growth outperformed value, small stocks outperformed large and domestic outperformed foreign. Fixed income lost value as bonds continue to be underwater in the tug-of-war between Fed easing and interest rates rising. Therefore, the folks who can afford to take on more risk (growth and smaller companies) were rewarded handsomely. Those who stuck with conservative investments such as retirees - those who need income or those who fear loss of principal - actually lost net worth last year due to the declining bond prices.

This year there are many new rules put in place to help improve the lower classes and reduce some of the wealth accumulation. This includes higher taxes for the wealthy, such as higher payroll tax on incomes over $200,000. Higher tax brackets across the board are also in effect, including an investment tax of 3.8% for filers in the highest tax bracket which is now 39.5 percent. Some folks will discover this year that they are paying over fifty percent in taxes if they include payroll tax, investment tax, federal and state income tax.

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The Affordable Health Care Act is designed to also help level the playing field by bringing medical benefits to all citizens. By now most people applying for new health insurance discovered their premiums increased unless their incomes are below the poverty limit.

It is too early to tell how these changes will affect our economic growth in 2014. Strong early earnings reports indicate we are still carrying some momentum over from last year. It may take a few quarters to evaluate the impact of higher taxes and higher health care costs on employers. This could derail the decline of unemployment or could eventually cut into corporate profits.

The Federal Reserve Board will likely continue to taper the bond purchase program as the economy gains more stability. This could continue to fuel risk investments although likely at a slower rate than the last two years. In the meantime we should revel in the continued recovery. Make certain your investments reflect your goals for the New Year and you are diversified to take advantage of different types of growth in the future.

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