STRATEGIC Wealth Advisors

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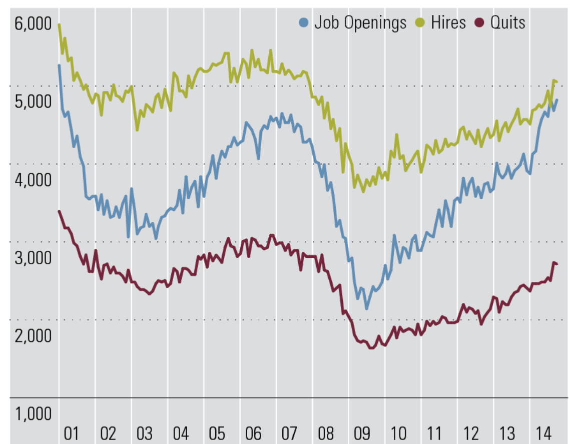
One of Yellen’s Favorite Metrics ‘Jolts’ Ahead

The formerly unimportant job openings report has taken on a new significance since U.S. Federal Reserve Board Chair Janet Yellen has included this metric in a list of labor market reports that she is watching closely. And this relatively new report is now sending a message that we really haven't seen before. Job growth isn't much better than it has been in the past three or four years, while the number of openings per person employed is now at its best level since 2001 and way above year-ago levels.

The chart below illustrates how the growth in job openings is outpacing the growth in hires. This means that there are increasingly less workers matched with the jobs that are being posted, and it may soon force employers to increase wages in order to fulfill those unmatched job openings.

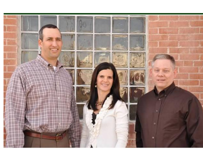
Job Openings, Quits, and Hires, Seasonally Adjusted, Thousands of Workers



This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

Source: Bureau of Labor Statistics. Data through November 2014.

What's Happening at SWA



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IRA Rollover vs. Direct Transfer. The IRS issued a new rule starting in 2015 for IRA Rollovers. A Rollover consists of taking possession of an IRA distribution and later depositing it to another IRA. Prior to this year an IRA owner could take possession of an IRA distribution via check, cash it, use the money for several weeks and then deposit the same amount into the original or a different IRA within 60 days without any tax consequences. There was no limit on the number of rollovers that could be done each year. Under the new rule, taxpayers are limited to one Rollover every 12 months. The safer method for transferring funds is a Direct Transfer in which the IRA owner never takes possession of the distribution. The money is moved from one IRA to another IRA directly, without access by the owner. IRA owners can make multiple Direct Transfers without any tax consequences. Failing to follow the IRS’ new rules can result in a 10% early withdrawal penalty and other potential fines. Contact SWA or your tax advisor for more information.

Monthly Market Commentary

As we said good-bye to 2014, falling gas prices have encouraged many to hope that the economy might finally jump to 3% GDP growth or even more. Besides oil prices, the positives include an improving wage and employment outlook and a slightly better government spending situation. On top of that, inflation is likely to remain in check. However, slowing international markets, a still-slow housing market, a less robust gain in auto sales, and rising interest rates may all weigh on economic activity in 2015.

Consumption and Income: Not only did November consumption data look great, but also some previous months of data were revised upward. Consumption growth, even on an averaged basis, was all the way up to 2.7% for the three months ended in November. This compares with consumption growth of around 2% for most of this recovery. However, on the flip side, the savings rate has fallen sharply over the past several months. It probably has room to fall a little more, but after that, spending gains will have to come from employment growth and wage gains. That may make consumption gains a little harder in early 2015, even if wages and employment continue to improve.

Housing: November's existing-home sales report was very worrisome, dropping from 5.25 million units to 4.93 million units, its lowest result since May. In fact, existing-home sales, which are seasonally adjusted, had been above 5 million units for five months in a row, so the November number was quite a setback. Stable mortgage rates, improving economic conditions, and better labor markets, along with the pending home sales data, suggest that existing-home sales data should not have shown such a dramatic drop. However, there is no reason to panic just yet. The annual, averaged data show very, very slow but steady improvement both in pending-home sales and existing-home sales. The gap between the growth rate in pending and existing-home sales suggests that existing-home sales should pick up, at least a little.

One unfortunate consequence of the soft existing-home sales data is that it will hit economic activity and the GDP calculation. Without a massive rebound in existing homes in December, it would appear that poor existing-home sales (and at lower prices to boot) will subtract at least 0.2% from the GDP calculation after providing a modest addition in the third quarter.

Inflation: The Consumer Price Index fell a sharper-than-expected 0.3% (3.6% annualized) in November, largely but not entirely because of falling gasoline prices. The year-over-year inflation rate is still over 1% but should continue to trend down to under 1% even if energy prices fall no further. Even the moving average year-over-year growth rate is down to 1.5%. A word of caution, however: The positive effects and the sustainability of such lower prices remain an open question.

Year-End Insights: Overall GDP growth is likely to remain in the 2.0%–2.5% range in 2015, as it has for the past three years. Though some year-end data, especially from the United States, looks stronger going into 2015, a weak world economy is likely to act as a brake on overall U.S. results. Fed tightening, combined with low inflation expectations and normal spreads over inflation, suggest a higher interest rate of around 3.5% for the 10-year Treasury bond.

The consumer represents about 70% of the U.S. GDP. While everyone is concerned about oil prices and the Fed, consumer and demographic trends are probably more important in the long run. Morningstar economists estimate that the hourly wage rate is likely to go up, but the demographics of an aging population will limit employment growth, keeping consumption below its long-term trend of 3.6% but above the 1.9% rate of the past 10 years. Furthermore, long-term demographics are going to be more important than temporarily low oil prices. Cheap oil prices come and go quickly; demographic realities, not so much.

Avoid These Mistakes With Your IRA, Part 2

One of the key rules to bear in mind when rolling over money from a former employer's 401(k) into an IRA is the 60-day rule—that is, you have 60 days to complete the rollover. If you don't complete the rollover within that 60-day window and you're younger than 59 1/2, the amount will be treated as an early distribution and be subject to taxes and a 10% penalty. That's why it's a good idea to have your providers deal with one another on the rollover. That way, you never put your hands on the money, and the financial-services providers know the need to complete the rollover in a timely fashion.

Mistake 6: Letting your brokerage or fund company call the shots on your RMDs. Investors who are age 70 1/2 know that that's the year in which they must begin taking required minimum distributions from their Traditional IRAs and 401(k)s. Those RMDs are taxable. But RMD season also gives you the opportunity to make lemonade by being strategic about the investments from which you pull the distributions. Did your stock holdings shoot up in 2013? If so, it may be an ideal time to trim those holdings to restore your asset allocation back to your targets. As long as you take the right amount of RMDs from all accounts of a given type (you can't mix and match RMDs from your 401(k) and IRA, for example), you'll be on the up and up with the IRS. By contrast, if you leave it to your brokerage fund company to decide where to pull the money from, it may not be to your advantage. They may pull the money in accordance with their default rules, often proportionally from each holding.

Mistake 7: Not appealing a penalty on missed RMDs. Fail to take the RMD, and you'll be on the hook not just for the taxes, but also a 50% penalty (excise tax) on the amount that you should have taken and did not. That said, there may be legitimate reasons that you (or a loved one) missed the RMD. Perhaps you were ill, for example, or perhaps your parent is in the early stages of dementia and you haven't yet implemented a system to help with financial matters. The first step is to take the required distribution as soon as possible. Then fill out IRS form 5329, requesting a waiver of the 50% excise tax on missed distributions and providing the reason. Assuming the IRS finds that the missed RMD owes "to reasonable error and you are taking reasonable steps to remedy the shortfall," you should be able to get that penalty waived.

Mistake 8: Spending RMDs you don't need. In addition to the taxes due on RMDs, many retirees grouse about the distributions because they're taking them over their desired distribution rates. Shortly after they commence, RMDs quickly escalate well above the distribution rates that much research deems prudent and up into the range of 6% or 7%. Of course, as retirees age, they can arguably take more from their portfolios than they could earlier in their retirement years because their life spans are shorter. Additionally, your IRA may not be your only retirement resource; you can forgo distributions from other account types so that your RMDs don't take you over your planned spending rate. But if the RMD requirements are going to take you over your planned distribution rate, you can reinvest the money back into your retirement accounts—either a taxable account or a Roth IRA.

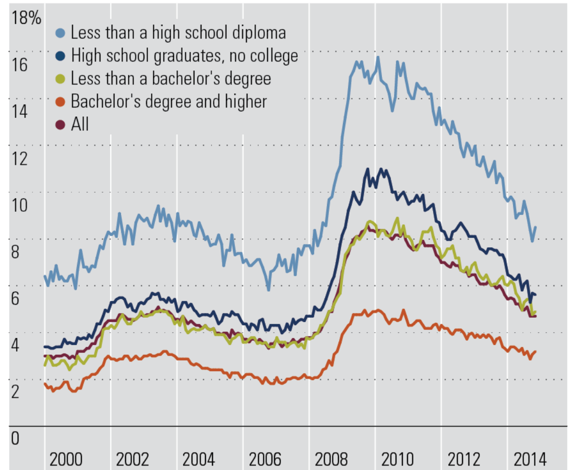
401(k) plans are long-term retirement savings vehicles. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. This is for informational purposes only and should not be considered tax or financial planning advice. Please consult a tax and/or financial professional for advice specific to your individual circumstances.

Unemployment by Education Level

There is a clear connection between educational attainment and unemployment rate. As expected, the people with the highest rate of unemployment are the people without even a high school degree. The unemployment rate for this group is almost triple that of college graduates. In general, the more education you have, the better off you are.

The percentage of the population that has a college degree has been relatively stable in the 30% range. And there is a large part of the population that could probably use yet more college education. Putting these two together, the conclusion is evident: It pays to go to college, and it would also be good if the percentage of the population who are college graduates could increase.

Unemployment Rate, 25 Years and Older



Source: Bureau of Labor Statistics, Morningstar calculations.
Data as of November 2014.