STRATEGIC Wealth Advisors

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Know Your Risks

Risk is the chance that you won't be able to meet your financial goals or that you'll have to recalibrate your goals because your investment comes up short. Investors face many forms of risk depending on the kinds of investments they choose.

Market, industry, and company risk: General market fluctuations can affect securities trading in that market. Stocks tend to fluctuate more than other asset classes, and may pose more risk over short periods of time. Investors looking to time the market run the risk of jumping into the market during the worst times, and out of the market during the best times. Security values can also decline from negative developments within an industry or company.

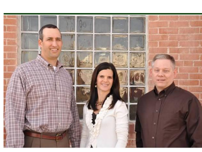
Credit and interest-rate risk: Credit risk is the possibility of a bond issuer not being able to make timely payments of principal and interest. The value of a bond may also decrease due to financial difficulties or the declining creditworthiness of the issuer. Interest-rate risk relates to how bonds tend to rise in value when interest rates fall, and to fall in value when interest rates rise. Typically, bonds with longer maturity exhibit greater price volatility.

Inflation risk: Inflation is a rise in the general level of prices for goods and services. If investments do not keep up with inflation, an investor's money will purchase less in the future than it did in the past.

Liquidity risk: Some investments may not be widely held by the public and may be difficult to sell if prices drop dramatically.

Currency risk: Returns achieved by local investors are often different from returns achieved by U.S. investors because of foreign exchange rates, even though both are investing in the same security.

What's Happening at SWA



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Behavioral finance deals with psychology-based theories on investor perception, biases, beliefs and decision making. Cognitive biases are deviations from rational thinking. One of those biases is Recency Bias which effectively weighs recent events more heavily than older events.

For example, since Ben Bernanke's speech on May 22nd of this year both bond and stock markets reacted negatively through the end of June. The result is that many account balances for June were lower than May's (depending on withdrawals and contributions). Recency Bias can kick in causing us to weigh the recent May and June performance more heavily than prior months' performance. This can lead us to believe that overall our accounts must be down in the last year, when in fact, many portfolios have experienced double-digit returns.

Don't let recent short-term volatility overshadow longer-term positive performance.

Monthly Market Commentary

The markets went through a lot of turmoil in June, as stronger economic reports were offset by fears of the Fed tapering its bond-buying programs. Home prices, employment reports, and auto sales were all better than expected, unlike trade and GDP data. Together with falling business investment and government employment, that leaves the consumer and housing as the two main engines of economic growth.

Federal Reserve news: Fed statements and a news conference suggested that the economy was stronger than it previously thought, and, as a direct result, bond purchases could be cut back as early as this year and eliminated as early as the middle of 2014, if the economy tracks Fed forecasts and the unemployment rate is around 7%. This, combined with a solid employment report, caused a significant increase in mortgage rates the Friday after Independence Day. For example, 30-year fixed rates climbed into 4.75% territory, with some lenders at 4.875% (according to Mortgage News Daily).

GDP: The third and final revision of first-quarter GDP growth revealed a lower-than-expected 1.8%. The Fed's outlook for the economy has been remarkably bullish, with forecasted GDP growth for 2013 of 2.3%–2.5%—a little too high, in light of the weak first quarter.

Employment: The June employment report showed growth of 195,000 jobs, similar to the previous three months when all revisions are considered. This number was better than the 12-month average and the consensus estimate of about 160,000 jobs. Year-over-year three-month average data has remained virtually stagnant in the 1.9%–2.1% range for almost a year (2.0% for June). However, the mix of jobs added wasn't great. The leading categories were leisure/entertainment and retail; manufacturing and government were down. In other words, jobs considered to be higher-quality and better-paying were down, while lower-paying jobs showed most of the growth. Also, health care and education, normally strong sectors, showed about half of their normal growth. The unemployment rate remained unchanged at 7.6%.

Housing: Reported CoreLogic data for May showed that prices increased 12.2% compared with May a year ago, the biggest percentage increase since 2006. This also marks the 15th consecutive monthly increase in prices. These price increases (along with falling gasoline prices) may be behind the jumps in consumer confidence and consumer spending that exceeds income gains. Even higher mortgage rates are not likely to quell recent price movement by much. In fact, attempts to beat the mortgage-rate increases may be driving some of the real estate activity.

Consumer spending: The personal consumption report showed that spending was locked in its same tight range, with income growth improving but trailing way behind spending growth. Regrettably, income growth is likely to keep a lid on consumption growth, which in turn will keep GDP in check.

Trade: The U.S. trade deficit jumped from $40.1 billion in April to $45.0 billion in May. Exports shrunk by about 0.3%, as expected, but imports grew by 1.9%, indicating that the U.S. economy is stronger and improving compared with most of its trading partners. Global Purchasing Managers Index (PMI) data for the manufacturing sector was strongest for the U.S., with Europe second and China the weakest. This is probably not great news for those expecting China and other emerging markets to drive the world economy.

Quarter-end insights: Overall, it still looks like the economy is on the road to continued (if moderate) 2% growth, inflation is likely to remain below 2%, and long-term interest and mortgage rates are destined to go higher. When, not if, is the correct question to ask relative to interest rates. A tougher Fed and a tightening U.S. federal fiscal policy may keep a lid on short-term economic activity, but long-term fundamentals look strong.

Required Minimum Distribution (RMD) Tips and Traps

The tax-deferred compounding you get via an IRA or a company retirement plan enables you to grow your savings without having to fork over taxes on your investment earnings year in and year out. However, at some point, required minimum distributions, or RMDs, will take effect. All retirees must begin taking RMDs from their tax-deferred retirement plans by April 1st of the year following the year in which they turn age 70 1/2. They must then continue to take distributions by December 31st of each year thereafter. Roth IRAs aren't subject to RMDs. However, you exert more control than you might think over the timing of your RMDs, as well as over which accounts you tap. Here are some tips for getting the most out of your RMDs, as well as some traps to avoid.

Do

1. Even though you must calculate your RMD amounts for each of your traditional IRAs, you can draw your RMD from the investment that's most advantageous for you. If you've assessed your asset allocation and determined it's time to rebalance, take your RMD from the IRAs that hold assets where you need to lighten up.

2. Rather than taking your whole distribution at year-end, consider spacing your distributions throughout the calendar year to obtain a range of sale prices for your longer-term assets.

3. Consider "bucketing" your IRA and retirement-plan assets. That means dividing assets into cash or cash-like accounts to help address RMD and other income needs, intermediate-term assets (such as bonds) that are next in line for distributions, and long-term assets.

4. Put your distributions on autopilot to avoid the last-minute rush to execute trades (or worse, to avoid missing the deadline altogether). If you go the autopilot route, be sure to maintain cash assets in your accounts to avoid having your fund company or brokerage firm sell a long-term asset that you would have preferred to hold.

5. Coach elderly parents on taking their RMDs.

Don't

1. Miss the deadline. You'll owe a tax penalty equal to 50% of the distribution amount you should have taken but didn't, as well as the taxes that are due on any retirement-plan distribution.

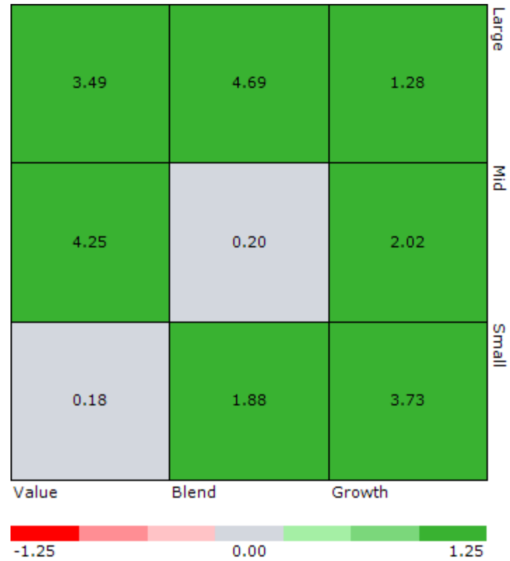
2. Pay a tax penalty without stating your case first. The IRS' website indicates that the penalty will be waived if "the shortfall in distributions was due to reasonable error and that reasonable steps are being taken to remedy the shortfall." If you've missed a distribution or didn't take as much of an RMD as you should have, you'll need to fill out an IRS form. You'll also have to submit a letter detailing why you had a shortfall in your distribution and what you're doing to remedy it.

3. Spend your RMDs right away unless you've analyzed your retirement plan's viability and determined that you can afford to splurge.

4. Plow the proceeds into a Roth IRA without doing your homework first. You need to have enough earned income (generally, that means income from a job) to cover the amount of your IRA contribution. For example, if you want to contribute $6,000 to a Roth, you'd need to have at least $6,000 in earned income to do so. Unfortunately, income drawn from your retirement accounts doesn't count. Note that you can't make additional traditional IRA contributions after age 70 1/2.

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. Please consult with a financial or tax professional for advice specific to your situation.

Quarterly Market Barometer



3 Month, ending June 30, 2013. The U.S. Market returned 2.72% (YTD 14.04%).

The Morningstar Market Barometer provides a visualization of the performance of various stock market indexes. The color scale (red for losses and green for gains) allows you to assess which areas of the market performed strongly and which areas showed weakness for the time period analyzed. The nine-square grid represents stocks classified by size (vertical axis) and style (horizontal axis). There are three investment styles for each size category: small, mid and large. Two of the three style categories are "value" and "growth" while the central column represents the core style (neither value nor growth characteristics dominate). Large-caps account for the top 70% of the capitalization; mid-caps represent the next 20%; and small-caps represent the balance.

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