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Tune Out the Noise

There's a reason that investors tend to only hear about "looming" market doom or "imminent" market growth. While many news outlets have incentive to draw viewer attention with wildly bullish or bearish predictions, these sensationalized views may be a distraction to a sound investment approach. When tempted to make a radical change to your investment portfolio based on these headlines, it is important to recall some basic fundamentals to keep your plan on track.

Drown out the noise. Market movements are notoriously difficult to predict. The media outlets that scream the loudest are not always the most accurate. The fallout from attempting to time the market in response to one of these predictions can be dangerous to your portfolio.

Look, but don't stare. While it's important for investors to know the performance of their accounts, short-term market fluctuations can be quite volatile. While the probability of realizing a loss within any given day is high, the likelihood of realizing a loss historically has decreased over longer holding periods. Periodic review of an investment portfolio is necessary, but investors shouldn't let short-term swings affect their view of the future.

Stay focused on the long term. Investors who have taken the time to determine a sound investment plan based on specific goals and risk tolerances are best advised to stick to that plan. While it may not always grab headlines, a sensible, tailored investment plan may be the best solution to meeting long-term goals.

Holding a portfolio of securities for the long term does not ensure a profitable outcome, and investing in securities always involves risk of loss.

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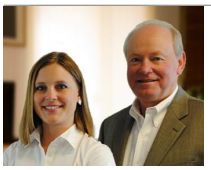

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Chambers Financial Group

Chambers Financial Group is a comprehensive financial services firm that was founded in 1984 with the goal of assisting our clientele with a holistic financial view in mind. We integrate many of the financial areas in your life, including investment planning, portfolio management, retirement planning, estate and tax planning.

We are an independent family practice dedicated to providing objective, responsible financial planning assistance to a broad range of clients. Our objective is to help our clients live the life they wish to, both now and in the future. Our clients' success is our success.

We believe in building long-term relationships with our clients. We believe in the value of building trust and confidence with long range plans to achieve your financial goals. We give unbiased, honest advice and believe patience along with discipline is crucial in the achievement of defined investment goals.

Mutual Fund Tax Bills Are Rising

Mutual fund investors' tax bills have been on the rise again recently. The average capital gains distribution (a payment to shareholders of profits realized on the sale of a fund's securities) for U.S. equity funds based on data as of April 2014 is 19.3% of assets, compared with, for example, 6.9% back in 2007. These recent distributions are among the largest seen since the start of the financial crisis in 2008.

The reason for those payouts is of course a good thing. The payouts mean that funds have produced solid returns for a few years running. The distributions were small in 2008, 2009, and 2010 because capital gains were offset by realized losses during the financial crisis. However, most of those losses are long gone.

Mutual funds are required to distribute their capital gains once a year. All of the realized gains are tallied while the realized losses and loss carry forwards from the previous year are subtracted to arrive at the total sum to be paid out. The distributions are made in equal proportions to all shareholders regardless of when they bought the fund. Then all the fund holders who own the fund in a taxable account have to pay taxes on those distributions—even if they reinvest their distribution.

What does all of this mean? Well, mutual fund investors should consider strategies for dealing with future payments. Most funds may still be sitting on sizable gains, so it's quite likely that payouts will continue to grow as funds sell their winners. Thus, fund tax bills can be expected to grow. That's a bad thing, because you'll have more money at the end of the day if you can postpone paying capital gains as far into the future as possible. The reasons are twofold: First, the time value of money means that money in today's dollars is worth more than in the future because inflation will have eroded its value. In addition, if you hold on to the money, it can compound over time in your fund, thus earning you more money.

Here, then, are a few things you can do to limit your tax bill.

1) Max out on tax-sheltered accounts. Taxable distributions are not a problem for 401(k)s, 403(b)s, and IRAs, so invest as much as the law will allow before you put money in taxable accounts.

2) Consider tax-managed funds for your taxable accounts. Tax-managed funds do a great job of avoiding making distributions because they realize losses on some holdings when they have to realize gains on others. After taxes are figured in, these funds generally put up superior returns.

3) Consider exchange-traded funds (ETFs). They don't have all the strategies available as tax-managed funds, but they do have some unique features that help reduce their tax bills. Just make sure you've chosen one that is diversified, has low costs, and has low turnover.

4) Don't buy funds that have had huge returns over the past three years. Buy a fund with huge gains and you're going to get a huge tax bill regardless of whether you make any money yourself. So, tread carefully in hot areas. If you have your heart set on such a fund, at least put it in an IRA or 401(k).

Investors should read the prospectus and carefully consider a fund's investment objectives, risks, fees, and expenses before investing. It is important to note that ETFs are not immune from capital gains distributions; ETFs may make capital gains distributions if changes in the underlying index occur. 401(k) and IRA plans are long-term retirement-savings vehicles. Withdrawal of pretax 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. Please consult with a legal, financial, or tax professional for advice specific to your situation.

Find the Right IRA in Three Easy Steps

Even if you're already convinced that saving in an IRA is a sensible thing to do, there's still a little bit of research to conduct. There are two main types of IRA accounts, and selecting the one that's best for you can be a daunting process. You can figure this out in relatively short order by following these three steps.

1) Know the Basics: Understanding the difference between the two types of IRAs—Roth IRAs and traditional IRAs—is the key first step in determining which is suitable for you.

Both vehicles let you sock away money and enjoy a tax benefit. With a traditional IRA, you won't have to pay taxes on your IRA's investment earnings until you begin taking distributions from it during retirement; thus, your money enjoys the benefit of tax-deferred compounding. (That means you'll have to pay taxes on your earnings when you begin withdrawing money, but not as you go along.) The Roth, however, has a couple of huge advantages over a traditional IRA. Whereas traditional IRAs carry restrictions governing when you have to begin taking distributions, the Roth carries no such restrictions; you won't be forced to take distributions at any age. And perhaps even more significantly, qualified distributions from a Roth will be tax-free, not tax-deferred as is the case with a traditional IRA.

With that information, the choice might seem clear: Roth IRA all the way. But there are a few other issues to consider. For those who qualify (consult a tax professional or the IRS' site to determine if that's you), a traditional IRA provides up-front tax savings. All of your contribution to a traditional IRA plan could be tax-deductible. Contributions are not tax-deductible with a Roth IRA.

2) Determine Your Eligibility: Okay, you've now identified the account type that suits you, but there are eligibility hurdles you'll have to clear in order to use a traditional IRA or a Roth IRA.

Let's start with the most sweeping limits first. For 2014, according to IRS Publication 590, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified adjusted gross income (AGI) is: more than $96,000 but less than $116,000 for a married couple filing a joint return or a qualifying widow(er); more than $60,000 but less than $70,000 for a single individual or head of household; or less than $10,000 for a married individual filing a separate return.

For 2014, according to Publication 590, you cannot make a Roth IRA contribution if your modified AGI is $191,000 or more if your filing status is married filing jointly; $129,000 or more filing single, head of household, or married filing separately, and you did not live with your spouse at any time in 2014; or $10,000 or more if your filing status is married filing separately and you lived with your spouse at any time during the year.

3) Weigh Your Options: You may find that certain IRA types are automatically off limits to you because of your income level. But what if you establish that you're eligible to make more than one type of IRA contribution—for example, you can contribute to a Roth and make a deductible contribution to a traditional IRA? You may decide to do both if you have the money to do so, but if you have a limited sum of money to invest, the decision becomes a bit tougher. For a situation like this, as well as to keep abreast of the latest rules and regulations pertaining to IRAs, it would be in your best interest to consult with your financial advisor/tax professional.

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.

Quick Facts: Retirement

1. According to Aon Hewitt's "The Real Deal" 2012 study, an average full-career contributing employee needs 11.0 times pay at age 65, after Social Security, to expect to have sufficient assets to last through retirement. For example, if your salary is $80,000, you will need to have accumulated $880,000 by the time you're 65 and ready to retire.

2. In reality, the same employee is expected to have only 8.8 times pay in resources at retirement, which translates into a 2.2 times pay shortfall. To reuse the example above, this means you'd be $176,000 short.

3. The 2013 Transamerica Retirement Survey found that the percentage of participants who have taken a loan from their 401(k) plan has increased from 16% in 2008/2009 to 21% in 2012, then slightly decreased to 17% in 2013.

4. Wells Fargo conducted a survey of 1,000 middle-class Americans. The study shows that across middle class members of all generations, only 24% are confident in the stock market as a place to invest for retirement. The apprehension about the market is stronger for those age 25 to 29, with 56% expressing fear of losing their nest egg. When asked if given $5,000 for retirement where they would invest, 58% of those age 25 to 29 said they would invest in a savings account/CD.

5. Only 18% of workers are very confident they will have enough money to live comfortably in retirement (according to the EBRI 2014 Retirement Confidence Survey).

Sources: Aon Hewitt's "The Real Deal: 2012 Retirement Income Adequacy at Large Companies." "14th Annual Transamerica Retirement Survey of American Workers," Transamerica Center for Retirement Studies, July 2013. Wells Fargo news release, "Middle Class Americans Face a Retirement Shutdown," October 2013.

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