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... I must be about My Father's Business

## MFB Quarterly

Volume III

Issue 3

From the Desk of Doug Floro...

### First Quarter, 2013 in Review



**WOW! The first quarter of 2013 was stunning.** 2012 was a good year and the first quarter of 2013 continued to display strong gains in the equity markets. We closed out 2012 with the S&P 500 at 1426.19, and finished the first quarter of 2013 at an all time record high of 1569.19 up 10%. The blue chip Dow also closed at a record high and did even better than the S&P 500 for the first quarter, up 11.25%. The tech heavy NASDAQ was up 8.2% still a great distance from the all time highs seen during the tech bubble in 2000. We cannot expect these returns every quarter, but it is encouraging to see a good start to 2013. Of course it is impossible to predict this year's returns based on 2012, but I do want to point out that a majority of the good returns for 2012 were achieved in the first quarter last year.

It would be foolish to ignore the emotional aspect of money and financial markets. Some people think if the market is at an all time high then they should sell and move all their money to "safe" investments. I hear people on the AM radio day in and day out warning about the coming crash and buy gold or silver or "guaranteed investments." A question for you, how many people were thinking in 2006, "I must sell my house because it's at an all-time high and it's going to crash and I will be stuck"? How many people are saying I have to sell my home today because the real estate market has rebounded some and it's going to crash again? How "safe" is money in the bank? One issue with bank deposits is the interest rates we receive are lower than the rate of inflation. Over time you will lose your buying power. I often comment that a \$20 bill today is like a \$5 bill used to be. I verified that thought on the Bureau of Labor Statics [http://www.bls.gov/data/inflation\\_calculator.htm](http://www.bls.gov/data/inflation_calculator.htm). A \$20 bill in 2013 has the same purchasing power as \$4.90 did in our bicentennial year, 1976. It is also much easier to reposition your asset allocation in stocks, bonds and mutual funds than to try and sell real estate or get out of some of those "safe guaranteed investments" they talk about on the radio. My advice for you: maintain a healthy emergency fund, remain wise, live below your means, keep diversified, and don't chase hot returns.

Our individual investments in the first quarter of 2013 followed a similar pattern to late 2012. Your asset allocation of stocks, bonds, and cash made a big difference in your first quarter returns. United States equity markets continued to perform well with many international and emerging markets lagging. There was some shake up in Europe as tiny Cyprus avoided a meltdown by freezing and then "taxing" uninsured bank deposits as part of their bailout package. Gold mining and some natural resource stocks continued their path lower in the first quarter. Investors' Business Daily ranks 197 Industry sub-groups on a six month performance basis with number 1 being the best and 197 the worst. According to the April 1, 2013 issue of IBD the subgroup "Mining Gold/Silver/Gems" was dead last 197 out of 197. Most people are very surprised to hear this because we constantly hear commercials to buy gold and silver.

Bonds in general remain weak as we see some loner term interest rates rise causing existing bonds to lose value. Municipal bonds continue to have some tax advantages as they were not touched in the recent budget negotiations. Global bonds were adversely impacted by a stronger US dollar, but remain an important component of a diversified portfolio. United States Treasury debt in general remains flat and has a weak outlook as we move ahead in 2013.

<sup>1</sup> (Source Yahoo Finance April 1, 2013) Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

#### What is next?

**We see some improvement in the unemployment rate!** There continues to be modest improvement and we are no longer losing jobs as we did for several years. It remains to be seen what impact Obamacare will have as we move into 2014. As I said in January, I believe we will see more and more part-time work as opposed to full-time and Obamacare is one of the reasons this trend will continue. Demographics will continue to shrink the labor pool as boomers retire.

**The US home buyers real estate market has finally improved in most areas of the country.** I know several people in real estate sales as well as construction. Real estate is moving and inventories have dropped locally, but properties still need to be priced right in order to sell. Take a look at your home and neighborhood to get an idea of local trends. [www.zillow.com](http://www.zillow.com) is a good place to see what prices are like in your area. If you have not done so already, I encourage you to evaluate your current mortgage rate and length. Rates remain historically low, but will not be that way forever.

**European debt, US debt and your debt.** Cypress reminded us that the European debt issues are still a problem. The thought of freezing bank accounts, taxing account balances, and telling people how much they can withdraw from the bank daily rubs most of us the wrong way. The debt problems in Europe will continue to put pressure on their banking system as sovereign debt must be dealt with one way or another. Unlike Cypress and their marriage to the Euro, here in the good old USA we can always just print more money. Please remember, inflation is the unseen tax on your money. It is more subtle than taxing your bank deposits, but the end result is not that different.

#### Important Reminders -

**Schedule your annual review:** We would love to meet with you in person, but if that is not practical, we need to do a phone review or via Skype.

**Send us copies of your work retirement plans:** Adjustments may be necessary within your employer sponsored retirement plans. Are you still receiving a company match? Do you have new investment options? Are you on track for retirement?

**Send us a copy of your Social Security projections,** if you are not already receiving benefits. It is very important for us to talk if you are considering taking benefits before your full retirement date. If you have not done so already, you can get up to date information by going to: <http://www.ssa.gov/mystatement/>

**TAXES** – Please remember to send us a copy of the first three pages of your 2012 tax return when it is completed if we are not already preparing your return.

**Don't keep us a secret:** We love what we do and we know we can be of benefit to the people that are important to you.

Sincerely yours –

Doug Floro, CFP®



P.S. - You can always access your investment portfolio securely from your home or work computer anytime, day or night. Go to <http://mainaccount.com/gwm> and register for free access. Call us for your temporary password and we will help you with the registration process.

# Spring Cleaning

By Nicole L. Floro

**March 20<sup>th</sup> marked the official** start of Spring this year and with that comes some much anticipated changes. The weather is warmer and there is no longer a threat of snow. Rita's Water Ice is open, birds can be heard singing, and flowers are blooming. With the change of seasons though, we are also reminded of the need for Spring cleaning. Some anticipate it with excitement, while others dread it like the plague. We can all agree though that the change in seasons is a great time to clean out your closets and get rid of those dust bunnies growing under the couch.

Here are some tips to help get you started on your Spring cleaning this year.

**Make a checklist.** Making lists is a good way to see everything that needs to be done and mark your progress as you go. Growing up, my Dad always made checklists. Even now, he makes lists of what he needs to accomplish on the weekend. Maybe it's all psychological, but I like to think crossing things off helps boost your self-esteem and encourages you to do more. It's like patting yourself on the back.

**Tackle one area at a time.** Looking over your list, the task at hand can seem daunting. Instead of becoming overwhelmed by your list, break it down into rooms and work on one room at a time. This way, you can start and finish one task and cross it off your list.

**Here's a tip!** ... When tackling your closet, it can be hard to know if you'll ever wear something again or not. So turn all your hangers and hook them on backwards. When you wear something, turn the hanger the right way. Next year when you're ready to Spring clean your closet, you'll know which clothes are ready to be donated.

**Get the whole family involved.** I'm sure we are all familiar with the saying "*Many hands make light work.*" So don't feel like you need to tackle your list by yourself; recruit some help! To minimize complaining, assign tasks you know each person will be good at and enjoy. Maybe your son loves working outside and can help clean the yard or wash the outside windows. Or maybe your husband has a long reach and can change the batteries in all the smoke detectors. Whatever the task may entail, things go faster when you enjoy what you do. So divvy up the tasks and spread the love!

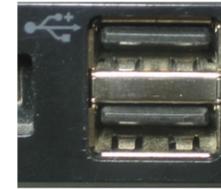
**Set up a daily cleaning schedule.** Many of us are overbooked and strapped on time. So when it comes to Spring cleaning, sometimes things fall to the wayside. If you set up a daily or weekly cleaning schedule, there will be less of a need for a big Spring cleaning. For example, maybe every Saturday is dedicated to cleaning the bathrooms, while Mondays are vacuuming days.

No matter what the task, it's always easier when you have a list and people to help. In the end, nothing can be checked off your list until you start. So why not start today!



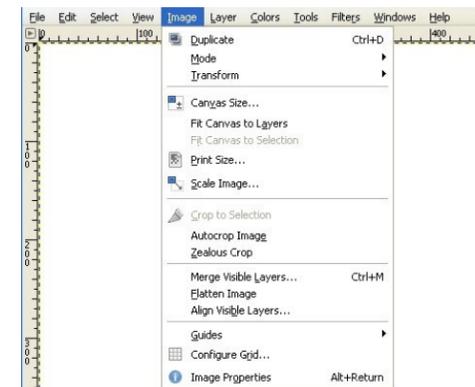
# Point, Shoot and Click Workshop Overview

On March 21<sup>st</sup>, MFB held a technology workshop called "Point, Shoot, and Click" for using your camera with your computer. In case you missed it, here's a quick overview of what we talked about during the workshop.



Technical Advisor Matthew Floro started off by going over how to transfer your photos from your camera to your computer. When connecting a digital camera to a Windows XP, Vista, 7, or 8 computer, it will be recognized by Windows and perform a basic hardware installation. To find your photos, open your *Start Menu* and use the *My Computer* shortcut on the right. Your camera will be listed at the bottom of the window below any disc drives. Your camera also comes with transfer and editing software provided by the manufacturer. If you can't find the original disc, you can download it from the manufacturer's website by searching for your camera's brand and model number.

As mentioned in our January newsletter, [GIMP](#) (GNU Image Manipulation Program) is an excellent, free alternative to Photoshop and includes tons of photo editing tools. While taking questions, we went through a quick overview of the more popular tools used for photos. 



Found under the Image tab, the Transform submenu will let you rotate and flip your photo (for example, if a photo is scanned upside-down). Canvas Size can be used to add or remove image area, useful for adding captions, cropping large areas, or combining photos together. Scale Image is used for resizing your photos, shrinking them down in area and file size so they can be viewed on mobile devices or sent via email. Below Scale Image are your cropping tools; using a selection tool, such as the Rectangle Select Tool in the upper left of the toolbox, you can remove large unused areas with Crop to Selection. Autocrop Image will automatically remove empty outside areas from the image, like when there is leftover transparent space from using Canvas Size.

GIMP comes with many color, contrast and brightness editing tools, found under the Colors menu. Using color balance, you can adjust shadows, midtones, and highlights with a preview option to compare to the original image. Under the Auto submenu, White Balance will adjust the Brightness & Contrast for your image automatically; if you prefer to adjust them manually, Brightness-Contrast adjusts with sliders and Levels adjusts with a bar graph (both have previews available).

While GIMP includes a lot of creative image filters, we just went over some of the more appropriate ones for photo editing, such as Red Eye Removal. After selecting a box around the eyes that need to be fixed, start the Red Eye Removal filter under the Enhance submenu in Filters. Here you can change the color threshold with a preview. Some other useful filters for photos include the options for lens flare and lighting changes, motion blur, or even more creative options like adding a mosaic or glass tile effect.

If you decide to use GIMP, don't forget to download the manual in your language of choice. If you have any questions about photo editing or uploading from your camera to your computer (or to the internet), you can contact our Tech Advisor Matthew Floro at [matthew@mfbwm.com](mailto:matthew@mfbwm.com) or call our offices during business hours at (215) 256-8989.

## *Traditional IRA vs. Roth IRA; What's the difference? Which is best for me?*

First some of the basics, an IRA of any flavor is an Individual Retirement Account. This means it can have only one individual owner. You have one owner, but you can name many beneficiaries for your IRA and this is a very important decision. Your named IRA beneficiaries will receive their share of your IRA regardless of what your Will or trust states and the IRA distributions do not go through probate. The only exception would be if you named your Estate or Trust as the beneficiary of your IRA (which is not generally recommended).

Many people think an IRA is a type of investment. Please remember an IRA (Roth, Traditional, SEP, SIMPLE, Inherited) is not a specific investment. The term IRA is applied to an investment as a label for tax purposes. You can own mutual funds, individual stocks, bonds, an annuity, CDs, passbook savings, real estate, certain gold coins, and exchange traded funds within an IRA.

So what is the difference between a Traditional IRA and a Roth IRA and which is better for you? There are several very important differences and many things they share in common. The right choice for you should be discussed with your financial and tax advisors based on your situation. This is the link to the 113 page IRS publication 590 for IRAs, or what they call Individual Retirement Arrangements. <http://www.irs.gov/pub/irs-pdf/p590.pdf>

### **Here is a very short outline:**

**Roth IRAs:** You must have earned income to contribute and there are limits to the income you can earn and still qualify. Roth IRAs are funded with after tax dollars. Contributions remain tax-free and IRS penalty free and any gains would be tax free after owning for five tax years and age 59½. Withdrawal of gains before the five year clock and age 59½ are subject to regular federal tax rates and a 10% IRS penalty. Roth IRA has no required minimum distribution at age 70½. Roth IRA beneficiaries do not pay federal taxes on their distributions.

**Traditional IRAs:** You must have earned income to contribute and there are stricter limits to the income you can earn and still qualify. Withdrawals of any amount prior to age 59½ are subject to regular federal tax rates and a 10% IRS penalty. Withdrawals after age 59½ are IRS penalty free, but still subject to federal income tax at your personal rate. There is an annual required minimum distribution at age 70½ that is based on your age and IRA values. Traditional IRA beneficiaries do not

*Continues on page 6*

## ***The Right Beneficiary***

*Who should inherit your IRA or 401(k)? See that they do.*

**Here's a simple financial question: who is the beneficiary of your IRA?** How about your 401(k), life insurance policy, or annuity? You may be able to answer such a question quickly and easily. Or you may be saying, "You know ... I'm not totally sure." Whatever your answer, it is smart to periodically review your beneficiary designations.

**Your choices may need to change with the times.** When did you open your first IRA? When did you buy your life insurance policy? Was it back in the Eighties? Are you still living in the same home and working at the same job as you did back then? Have your priorities changed a bit – perhaps more than a bit?

While your beneficiary choices may seem obvious and rock-solid when you initially make them, time has a way of altering things. In a stretch of five or ten years, some major changes can occur in your life – and they may warrant changes in your beneficiary decisions.

In fact, you might want to review them annually. Here's why: companies frequently change custodians when it comes to retirement plans and insurance policies. When a new custodian comes on board, a beneficiary designation can get lost in the paper shuffle. (It has happened.) If you don't have a designated beneficiary on your 401(k), the assets may go to the "default" beneficiary when you pass away, which might throw a wrench into your estate planning.

**How your choices affect your loved ones.** The beneficiary of your IRA, annuity, 401(k) or life insurance policy may be your spouse, your child, maybe another loved one or maybe even an institution. Naming a beneficiary helps to keep these assets out of probate when you pass away.

Beneficiary designations commonly take priority over bequests made in a will or living trust. For example, if you long ago named a son or daughter who is now estranged from you as the beneficiary of your life insurance policy, he or she is in line to receive the death benefit when you die, regardless of what your will states. Beneficiary designations allow life insurance proceeds to transfer automatically to heirs; these assets do not have to go through probate.<sup>1,2</sup>

You may have even chosen the "smartest financial mind" in your family as your beneficiary, thinking that he or she has the knowledge to carry out your financial wishes in the event of your death. But what if this person passes away before you do? What if you change your mind about the way you want your assets distributed, and are unable to communicate your intentions in time? And what if he or she inherits tax problems as a result of receiving your assets? (See below.)

**How your choices affect your estate.** Virtually any inheritance carries a tax consequence. (Of course, through careful estate planning, you can try to defer or even eliminate that consequence.) If you are simply naming your spouse as your beneficiary, the tax consequences are less thorny. Assets you inherit from your spouse aren't subject to estate tax, as long as you are a U.S. citizen.<sup>3</sup>

*Continues on page 6*

## Update from our Admins!

### Traditional IRA vs. Roth IRA (continued from page 4)

have to pay the 10% penalty on pre age 59½ withdrawals, but they are subject to federal tax on all distributions. Traditional IRA beneficiary distributions need careful planning as a large chunk can be lost to federal income tax.

You still have time to start your IRA for 2012 or contribute to an existing IRA until April 15<sup>th</sup>, 2013 if you are eligible. For those that qualify, the 2012 limits for Traditional and Roth IRAs are \$5,000 (\$6,000 age 50+). For 2013 the limit was increased to \$5,500 (\$6,500 age 50+).

Haven't even started your 2012 tax return yet? This year's deadline is Monday, April 15<sup>th</sup>. Time is running out! Don't forget that MFB Wealth Management can help you with this as well. Tax Manager Michelle Hackman can complete your Federal, State, and Local return at a rate comparable to other tax preparers in our area. Please call our office to schedule your appointment.



### The Right Beneficiary (continued from page 5)

When the beneficiary isn't your spouse, things get a little more complicated for your estate, and for your beneficiary's estate. If you name, for example, your son or your sister as the beneficiary of your retirement plan assets, the amount of those assets will be included in the value of your taxable estate. (This might mean a higher estate tax bill for your heirs.) And the problem will persist: when your non-spouse beneficiary inherits those retirement plan assets, those assets become part of his or her taxable estate, and his or her heirs might face higher estate taxes. Your non-spouse heir might also have to take required income distributions from that retirement plan someday, and pay the required taxes on that income.<sup>4</sup>

If you designate a charity or other 501(c)(3) non-profit organization as a beneficiary, the assets involved can pass to the charity without being taxed, and your estate can qualify for a charitable deduction.<sup>5</sup>

**Are your beneficiary designations up to date?** Don't assume. Don't guess. Make sure your assets are set to transfer to the people or institutions you prefer. Let's check up and make sure your beneficiary choices make sense for the future. Just give me a call or send me an e-mail – I'm happy to help you.

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#### Citations.

- 1 - [smartmoney.com/taxes/estate/how-to-choose-a-beneficiary-1304670957977/](http://smartmoney.com/taxes/estate/how-to-choose-a-beneficiary-1304670957977/) [6/10/11]
- 2 - [www.dummies.com/how-to/content/bypassing-probate-with-beneficiary-designations.html](http://www.dummies.com/how-to/content/bypassing-probate-with-beneficiary-designations.html) [1/30/13]
- 3 - [www.nolo.com/legal-encyclopedia/estate-planning-when-you-re-married-noncitizen.html](http://www.nolo.com/legal-encyclopedia/estate-planning-when-you-re-married-noncitizen.html) [1/30/13]
- 4 - [individual.troweprice.com/staticFiles/Retail/Shared/PDFs/beneGuide.pdf](http://individual.troweprice.com/staticFiles/Retail/Shared/PDFs/beneGuide.pdf) [9/10]
- 5 - [irs.gov/Businesses/Small-Businesses-&Self-Employed/Frequently-Asked-Questions-on-Estate-Taxes](http://irs.gov/Businesses/Small-Businesses-&Self-Employed/Frequently-Asked-Questions-on-Estate-Taxes) [8/1/12]

We're going to be busy this spring and hope you can join us! Take a look at what we are up to ...

With winter behind us, it's now time for the staff at MFB Wealth Management to turn into the volunteer road crew for Pennsylvania's Department of Transportation. On **Saturday morning, April 20<sup>th</sup>**, we will be out picking up six month's worth of litter along a two mile stretch of Route 113 in Harleysville. More hands make the work go faster! Would you like to join us? (We know you want to wear those bright orange vests!) Please call the office to sign up.



**Inheritance Planning for Singles** will be held on **Tuesday, May 14<sup>th</sup>** at Henning's Market in the Community Room, located at 290 Main Street in Harleysville. Attorney Jeff Landis from Brinker, Landis & Hunsberger, LLC. will be joining us for this workshop. Topics to be covered include asset transfers during your life time and after, tax ramifications, gifting, and inherited IRAs. All are welcome. Don't forget to invite your family and friends. Contact the office to sign up!

**Saturday June 15<sup>th</sup>** we will be rolling and strolling in the 22<sup>nd</sup> Annual Indian Creek Foundation Stroll and Roll in Souderton. Join us to help raise awareness and funds for children and adults with intellectual and developmental disabilities. More information will be sent out in May.



We hope you received your "Save the Date" invitation for **MFB's Third Annual Client Event**. We are all excited to visit the American Treasure Tour in Oaks. Lunch will be served at 12 noon and the tour begins at 1:15. Be sure to keep **Saturday, September 28<sup>th</sup>** open.

Just a few office reminders we want to send your way ...

Remember to keep your personal information private. Do not send us private information in emails, including your social security number, date of birth, or account numbers. You never know who might be lurking in cyber space!

We are not allowed to take trade requests via email. If you need funds from your account, please call our office between 8:30 a.m. and 4:30 p.m. Monday through Friday. You can give the information to anyone on staff. The stock market closes each week day at 4 p.m. If we hear from you before then, we can often have the money out of your account and on its way to you by the next business day!

Don't forget to visit the MFB website at [www.MFBWM.com](http://www.MFBWM.com). You'll find a list of our upcoming events and can read past issues of our quarterly newsletters and eBlasts. The site also has an array of calculators and tools to use! Our website is a great way to introduce us to your friends. **Don't keep us a secret.**