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Financial Services

Monthly Newsletter

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Perspective
by Steven H. Weiss, CFS

Investors committed to the stock market for many years are looking at index numbers representing new all time highs. Their perspective is most likely quite different than younger people who make regular contributions to equity mutual funds in 401(k) or are looking for opportunities in the next hot social media stock.

During my career as an advisor, it is easy to see how things have progressed. This month marks the 30th year since I joined Dean Witter Reynolds. At the time the Dow Jones Industrial Average was approximately 1150. In our training sessions we focused on the market, dividend models, and future expectations. At the end, we were issued badges that proclaimed the DJIA would reach 5000 by the year 2000.

Veteran brokers laughed at us. They did not see how the Dow would climb so high. Their perspective was very different. In the 1970s decade the DJIA fluctuated between 577.60 and 1047.86. It only traded at 1000 or above for 81 days for all of the 1970s. It was easy to see their skepticism as the Dow sat at 1150 in April 1984.

Market cycles can be very long. On Valentine's Day this year headlines proclaimed the NASDAQ reached a new 13 year high. Simply put, anyone investing in the NASDAQ index at the previous high during 2000-01 in that market is just now breaking even. However, jumping in during the lows of October 2002 at the end of the "tech wreck" or more recently, March 2009 would have produced handsome positive returns for investors.

Recognizing a great opportunity would have to come in spite of the backdrop of the tech wreck and global financial crises. With that perspective, it is easy to see why investors would be squeamish. There are similarities to the historic examples of entry points to the market back when I got started professionally and the bottoms of the NASDAQ index in the early or late part of last decade. Both chances came when the market was undervalued for the long term.

It takes some volatility to create opportunity. Unfortunately, markets are sometimes most volatile, appearing to have the most risk, when the best opportunity exists. It is hard to make commitments when assets have lost value.

It can be prudent to consider reducing volatility and creating some certainty in your investment mix by choosing tax-free municipal bonds. It is true that all assets fluctuate in value, however, bonds are unique because there is a face value payoff on a date that is certain. There is of course the credit risk of the issuer which may cause you to lose principal, but as long as the municipality is paying their bills, you will receive principal return on the date stated.

Equity markets may produce better investment returns in the long run, however, at any given time this may not be the case and there is no certain date when it will. Additionally, lower volatility through bond market investments means your principal value is more likely to be closer to your original investment value over time. Prices also trend toward face value as time marches on and your bond is closer to the maturity date.

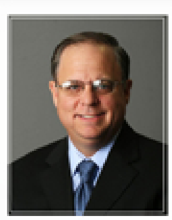
Interest payments on municipal bonds are federally tax free and income tax free in most states. Currently, your after tax yield from municipal bonds should be better than US Treasury and corporate bonds with a similar rating and maturity date. Remember, stock market gains and dividends are taxed, thereby reducing after tax returns with those choices.

Municipal bond yields are rarely higher than US Treasuries as they now are. This anomaly will not last. Investing in tax free bonds where interest rates are higher relative to government and corporate issues could provide a cushion for investors who believe interest rates will rise in the next few years. We've experienced this price cushion so far, as US Treasury rates moved up from historic lows in July 2012.

Most investors find themselves in the mid to high income tax bracket where municipal bond income provides a benefit. If that is your situation, you may want to diversify with assets that are generally less risky and much more stable in value than equity investments. Review your recently filed Form 1040 and look at Line 43 Taxable Income. Single filers move into the 25% federal tax bracket if line 43 is $36,901. Joint filers need only earn $73,801. Meaning, your next income dollar is federally taxed at the higher rate.

Let's investigate which municipal offerings from your state would be a benefit for you and your family. StockCross Financial Services participates daily in this market and I can help sort through what is available. For now, "this is Steven Weiss hoping all your investments are wise!"

Broker Spotlight



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