IN THIS ISSUE



# Trust UPDATE

Stillman BANK

## "Tapering" and your portfolio

Bond investors were unsettled last June when Fed Chairman Ben Bernanke suggested that the Federal Reserve might begin scaling back bond purchases sooner than expected. That led to a jump in the 10-year Treasury bond yield to 2.7%. Because bond prices move in the opposite direction of interest rates, the value of bond funds fell 7.5% from early May through early July, according to Morningstar, Inc. Skittish investors pulled some $81 billion from fixed-income mutual funds and ETFs in June, *The Wall Street Journal* reported at the time.

However, the reception to the commencement of the tapering off has been more favorable. Evidently, investors believe that the economy has strengthened enough to withstand an increase in medium- and long-term interest rates.

### *Bonds are for ballast*

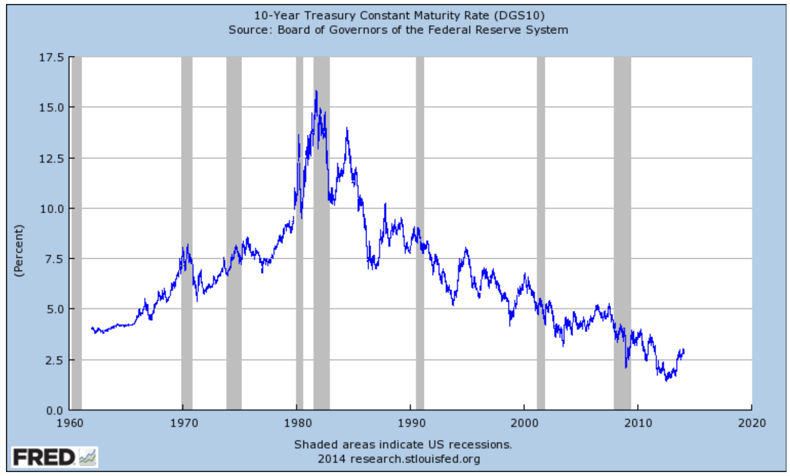
Bonds provide the foundation for many investors' portfolios, providing steady income and a return of principal upon maturity. Although bonds are subject to a variety of risks, their prices are generally less volatile than those of stocks.

As the Fed reduces its monthly purchases, the laws of supply and demand imply that prices will come down and yields will go up. Thus, on paper, the value of existing bonds will go down, but bondholders who don't sell before maturity never will realize that loss. On the contrary, in a rising interest-rate environment, bondholders are likely to welcome the opportunity to reinvest proceeds of matured bonds at higher rates, especially after such a long period of low rates.

What about stocks? The current bull market for equities, which began when the market bottomed out in March 2009, is overdue for a correction, according to some observers. The Fed's quantitative easing has, according to this analysis, contributed to boosting stock prices, and the withdrawal of that stimulus could lead to a leveling off or outright decline in prices. Certainly,

## Will the long-term trend reverse?

Interest rates were on a fairly persistent upward path through the 1960s and 1970s, as shown in this graph of the rates for 10-year Treasury bonds. The rate peaked at over 15% early in the Reagan presidency, when the Federal Reserve Board took strong anti-inflation measures. Since then, interest rates have declined, and remain at historically low levels. Respected economists, such as former Treasury Secretary Lawrence Summers, have suggested that they need to go lower still, before the economy will return to normal growth patterns. On the other hand, if the Fed's "tapering" program proves successful, we may have reached a turning point in this graph.




***"Tapering" and your portfolio*** *. . . continued*

as interest rates rise, bonds could become more attractive relative to stocks, dampening the demand for equities.

On the other hand, stocks as a whole currently are valued fairly, in terms of P/E ratios and other economic indicators. If the economy continues growing, and if profits stay firm, there could yet be some upside potential in carefully selected stocks.

### Effects on the economy

The unknown factor in these projections is the effect that higher interest rates will have on the economy. Some sectors will be helped, and some will be harmed, as interest rates rise. For example, the housing industry generally is thought to have recovered, with some areas of the country seeing average home prices setting new highs. Can that trend be sustained in the face of higher mortgage rates?

We've never before had such a long period of ultra-low interest rates. This time it really *is* different, and we have no experience exactly on point to rely upon. The new Chairman of the Federal Reserve, Janet Yellen, has a tremendous challenge ahead of her. The Fed is committed to continuing low short-term interest rates until employment has improved materially. On the other hand, the expansion of the money supply could lead to a return of inflation—and fighting inflation is one of the Fed's primary objectives.

These crosscurrents and uncertainties make sound investing in 2014 just about as difficult as rocket science.

### We can help with your investment management

We have a variety of individually tailored investment management services to meet the needs of our clients, from simple custody and agency accounts to full asset management with a trust. Our aim is to provide that quantity of service with which each client is most comfortable, that best meets each client's needs. For more information on our investment planning and management capabilities, please arrange to speak with one of our asset management specialists. ☐

## A capsule guide to our services for investors

Our services are, in essence, powerful financial planning tools built upon important investment management components. One of the great strengths of trust planning is the ability to tailor the plan to respond flexibly to current and future financial needs.

**Portfolio supervision.** Serious investing is a full-time job. Our investment advisory and investment management services put experienced investment professionals on your side. The officer assigned to your account will work with you to establish an investment strategy suited to your personal goals and circumstances. Asset allocation planning will be employed to optimize your portfolio, reducing investment risk through a process of disciplined diversification.

**Lifetime financial management.** The next step in comprehensive financial protection employs a revocable living trust. We begin by developing an investment policy for the trust based upon your requirements. We will implement that plan, providing continuous portfolio supervision and distributing or reinvesting trust income as directed. As trustee, we can move beyond the investment sphere, arranging to pay household bills and taxes on your behalf. A revocable trust provides financial protection in the event of incapacity, and it has important estate planning advantages as well.

**IRA rollovers.** Anyone who will receive a lump sum distribution from an employer's retirement plan would be well advised to take a careful look at an IRA rollover for the funds. A rollover preserves valuable tax privileges and can enhance your retirement capital. Taxable withdrawals may begin without penalty at age 59½, and a program of minimum withdrawals must begin at age 70½. With their tax-deferred nature, IRA rollovers present somewhat unusual investment issues, which should be resolved in the context of a full review of financial resources.

# Don't overlook this estate planning question

In a recent online article titled "Fifty Ways to Leave Your Loved Ones," estate planner Wendy Goffe wrote, "In my estate planning practice, the most dreaded question I must routinely ask is 'How would you like to instruct your loved ones to dispose of your remains?'" As uncomfortable as the subject may be, the range of responses that Ms. Goffe has received is remarkable.

For those who are religious, the choices may be straightforward. Cremation or burial? If a burial, in which cemetery? If a cremation, what will become of the ashes? There is a variety of organizations offering distribution choices, from creation of a memorial reef (http://www.eternalreefs.com) to lifting the ashes to the heavens (http://www.eternalascent.com). Perhaps the most spectacular is packing the ashes into a fireworks display (http://www.angels-flight.net).

### *Obituary as invitation*

Regardless of whether there will be religious observances, Goffe reports on a burst of creativity regarding themed events at death. Obituaries may resemble invitations to destination weddings, with suggestions for appropriate attire. Sports themes have been popular, with attendees wearing jerseys of favored teams. Other ideas:

- Open microphone, for sharing of memorable stories and expressions of appreciation.
- Open photo books, so mourners can bring photos to contribute and share.
- Favorite foods or potluck, perhaps with recipe sharing.
- For a deceased gambler, a poker party.
- For a shooting sports enthusiast, one final skeet shoot.
- Hiking and treasure hunting—high-tech versions rely on GPS directions.

### *Party favors?*

Gift bags may not be just for kids' birthday parties anymore. Funeral mementos might include engraved glassware, favorite recipes, seed packets or CDs of favorite music to remember the decedent by.

Thinking through details such as these may seem macabre to some. Is it an appropriate reach for control, one last time, from beyond the grave? Or does such planning, instead, help those who survive come to terms with their grief? After the tax planning, once the financial arrangements have been taken care of, this personal element may prove very important for many families.

### *Don't delay*

The number of people who never have made a will is always surprising. Sound financial benefits may be lost by failing to take care of this basic responsibility. A will or an attached letter can also be the means to let survivors know how best to memorialize one's life. If you haven't attended to your estate plans, be sure to get to them in 2014. ☐

# The IRA turns 40

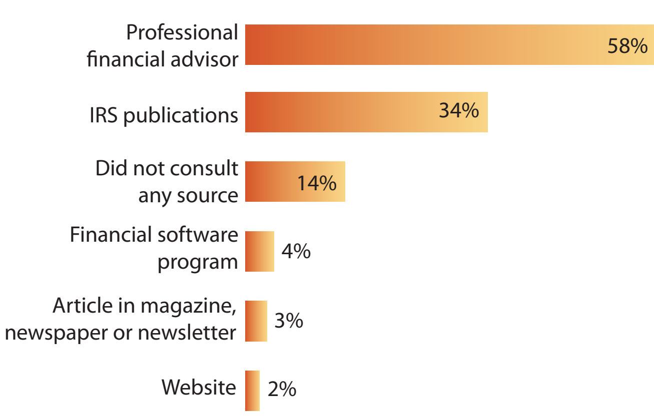
Once upon a time, there was no such thing as a tax break for individual retirement savings. That was before 1974, before passage of the Employee Retirement Income Security Act (ERISA). The primary purpose of ERISA was to make certain that the retirement promises made by private companies to their employees would be kept, and that tax-preferred retirement savings programs would be made available in a nondiscriminatory fashion. But what about those who did not participate in an employer plan? For them, the Individual Retirement Account was created. At that time, up to $1,500 could be contributed by eligible taxpayers to an IRA, and a corresponding deduction taken. The eligibility rules were loosened in 1981, but the tax deduction later was scaled back for higher-income taxpayers.

Last November the Investment Company Institute released a new study of the important role that IRAs now play in Americans' financial security in retirement. Datapoints of interest:

- 38% of all U.S. households have an IRA.
- Total IRA assets have reached $5.7 trillion, which is more than one-quarter of all U.S. retirement assets.
- Twenty years ago, IRAs represented just 4% of total household assets. Last year that figure was 9%.
- The growth of IRAs has been fueled in part by rollovers from company retirement plans, accounting for half of the traditional IRAs.
- 15.6% of households have a Roth IRA, which was first made available in 1998.
- IRAs are being used for their intended purpose, making retirement more financially secure. 70% of those making IRA withdrawals are 70 years old or older, while just 8% are under age 59.

How does one decide how much to withdraw from an IRA? According to the report, most people ask their professional financial advisor. ☐

How did you determine your withdrawal from a traditional IRA?




Source: *ICI Research Perspective, The Role of the IRA in U.S. Households Saving for Retirement, 2013* (November 2013)