Additional Fed Easing Rallies U.S. Equity Markets in 3rd Quarter

The summer slump I expected after a poor second quarter did not materialize. Although the stock market was mostly flat through July, large gains in early August and early September propelled the Standard & Poor 500 Index* to a 5.8% return for the quarter. In spite of weak economic growth and decelerating earnings, the announcement of additional and open-ended quantitative easing by the Federal Reserve drove markets higher in the third quarter.

According to the Lipper data** published in the WALL STREET JOURNAL, U.S. stock funds returned between 4.36% and 7.3% in the quarter. Large company stock funds outperformed midcap stock funds, which in turn outperformed small cap funds. Growth style funds did a little better than value style funds. Global stock funds returned an average of 7.64%, and emerging markets stock funds returned 8.15%. Active core equity managers did well in the quarter with 69% to 74% beating their benchmarks. Corporate bonds returned 4.09% for the quarter. Demand for corporate bonds remains strong, drawing inventory down and tightening spreads.

★★★★★★★★★★

"Risks for a serious global slowdown are alarmingly high" - IMF

★★★★★★★★★★

The market clearly continues to be driven by monetary policy not company fundamentals. Growth in corporate earnings in the 2nd quarter was below expectations for the fifth consecutive quarter. Although the uncertainty of the looming fiscal cliff may increase volatility, the market has likely priced in the expectation that our elected officials will "kick the can" again. As we pass the 4th anniversary of the financial crisis with the stock market near all-time highs, individual investors continue to pull money out of stocks. Stock buyers in the recent quarter have been hedge funds, sovereign wealth funds, company stock buy-backs, and bond holders buying dividend paying stocks. While the short term view of equity markets is cloudy, longer term institutional investors see more opportunity in stocks than in bonds over the coming decade. Last quarter I recommended a slight reduction in equity exposure (5% -10% less), with the thought of increasing to normal weightings at lower prices as the summer came to an end. As of this writing, the stock market is up about 1.6% since September 1st. I continue to focus on large company, high quality stocks. I recommend increasing equity allocations with either your 401(k) contributions, or on market "dips" in the coming weeks.

IRA Mistakes Can Be Very Costly

Back in 1939, the U.S. Tax Code was 504 pages. In 2011, it has grown to 72,536 pages, including 173 credits and deductions and more than 100 temporary provisions. Common mistakes in the transfer of an IRA account can lead to taxes and penalties that might have been avoided.

Many of my clients are members of the “Oreo” generation. They are typically baby boomers nearing retirement, but sandwiched between living parents and near adult children, with some level of care and financial responsibility for both. According to the Pew Research Center, about 3 in 10 Americans ages 25 to 34 live with their parents, or have done so in recent years. In the transfer of IRA accounts across these generations, the most common mistakes relate to improperly titled accounts and out of date beneficiary designations. Most investors are aware of the 10% tax penalty for IRA withdrawals prior to age 59 ½, and the required minimum annual distributions that must begin by age 70 ½. However, there are exceptions to the 59 ½ rule for payments due to death, disability, first time home buyers, and certain medical and education expenses. As far as when distributions must begin and over what period they must be completed, there are different rules applied to the primary IRA holder, a surviving spouse, or other beneficiaries. Without proper planning, an inherited IRA may have to be completely paid out (and taxed) over a five year period. With good planning, the IRA might continue to grow on a tax deferred basis until the beneficiary reaches age 70 ½; or it might be paid out slowly over the expected lifetime of a grandchild. Naming your estate as beneficiary for your IRA will trigger the five year payout. If you did not properly name a beneficiary, the custodian of your IRA will decide how it will be distributed. Neither option may agree with your intentions. Moving an IRA between custodians more than once in a 12 month period can be deemed a taxable distribution, even if you did not withdraw any money. Even the best planning on your part will not help if your beneficiaries do not re-title inherited IRA accounts properly. Take the time to review your IRA, your beneficiaries, and your intentions. Help your elderly parents review their IRAs. Then get some help. I would be happy to discuss your options, but you may ultimately want to seek the advice of an estate planning attorney or a CPA .

Dennis P. Lynch

The views and opinions expressed are those of Dennis Lynch as of 10/23/2012 and are subject to change based upon market conditions. Investment decisions should be based on an individual’s own goals, time horizon, and tolerance for risk. Past performance is not a guarantee of future results.

*The S&P 500 Index is a price weighted index of 500 actively traded stocks. Investments cannot be made directly into an index.

**Lipper, a division of Thompson Reuters, manages a mutual fund performance tracking and rating system. Lipper Indexes allow an investor to compare a particular mutual fund to other funds utilizing a similar investment style. A Lipper index is composed of the 30 largest funds of a given investment style. For more information about Lipper’s methodology, visit their web site at www.lipperweb.com/research/IndexComponents.aspx.