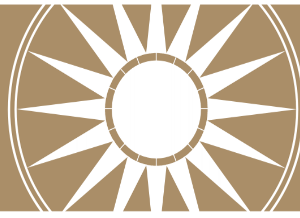

Mentor Monthly Missive

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Chasing income

Yield-starved investors should not forget a basic tenet of investing as they search for ways to boost income: Risk is ALWAYS commensurate with the potential for return.

It can be a major mistake to buy an investment solely because it throws off lots of income. Granted, many instruments that in the past yielded pretty well now stink. The important issue is real return – that is, what is your after-inflation after-tax return on the investment? So things are not so bad, although even after adjusting for inflation and taxes, yields are pretty paltry

Following is a sampling of options that income-hungry investors may want to consider. But don't ever forget the tradeoff between risk and return, and that any action (or inaction) involves risk – kind of like life itself!

(For illustration purposes only. Not meant as a recommendation to buy or sell a particular investment.)

Instrument	Yield	Risk*	Types of Risk**
Cash or equivalent			
Schwab money market mutual fund	0.10%	0.0	1
Ally Bank money fund	0.84%	0.0	1
CiT Bank 1-year CD	1.08%	0.0	1, 4
Bonds			
Thornburg Limited-Term Income	2.43%	3.02	2, 3, 6
Federated Emerging Markets Debt	3.98%	10.20	2, 3, 5, 6, 7
Federated Bond	4.39%	5.32	2, 3, 6
Hartford Floating Rate Fund	4.82%	6.94	2, 3, 6
Metropolitan West High-Yield Bond	7.41%	9.86	2, 3, 6
Stocks			
Vanguard High Dividend Yield ETF	2.74%	15.21	3
Nuveen Preferred Securities	5.58%	17.27	3, 5, 7
Other			
Pocket of your old sport coat	0.00%	0.00	1, 8

**Standard deviation of returns – higher number means riskier*
***Types of risk:*
1.) *Purchasing-power risk*
2.) *Credit risk*
3.) *Market risk*
4.) *Liquidity risk*
5.) *Currency risk*
6.) *Interest-rate risk*
7.) *Political risk*
8.) *Thrift-shop donation risk*

Meet our Wealth Managers

John S. Davis, CFP
President
john@mentoradvisers.com
630-530-1191
www.mentoradvisers.com

Mentor Capital Management Inc. was founded in response to the belief that a consumer's best interests are served when his or her financial planner is Fee Only. Advisors of Mentor Capital strive to provide objective, prudent and thoughtful advice to clients based on their personal goals and objectives.

John S. Davis is Mentor's founder, president and chief investment officer. A graduate of the University of Missouri, Columbia, he is a Certified Financial Planner licensee and a Registered Investment Advisory Firm Principal.

Daniel B. Carey is vice president of Mentor Capital and a member of its board of directors. A graduate of the University of Notre Dame, he is a Certified Financial Planner licensee and a Registered Investment Advisory Firm Representative.

Monthly Market Commentary

February saw markets continue to inch upward because of a temporary resolution to the Greek debt crisis. A second bailout was approved by European leaders, pending a bond swap in which private creditors are expected to accept a write-off that would significantly reduce Greece's sovereign debt. Also important was a reduction in Chinese bank reserve requirements, sending a message that the Chinese government is willing to do whatever it takes to prevent their economy from slowing too much. In the U.S., the disconnect between corporate earnings growth and economic growth continued to widen, as year-over-year GDP growth was relatively stable over the past year, while the S&P 500 year-over-year earnings growth decelerated throughout 2011.

GDP: Fourth-quarter real GDP growth was revised to 3.0% from 2.8%, with durable goods production and the rebuilding of depleted auto inventories still the two prime contributors to overall GDP growth. Warm weather, falling gas prices, and more auto production by Japanese auto transplants joined forces to artificially boost the fourth quarter. Morningstar economists believe that the 1.7% growth registered for the full year was probably more representative of trend-line growth than the sharp acceleration we saw in the fourth quarter.

Employment: February was the third straight month of solid job growth as employers added 227,000 jobs, mainly from a slower contraction of the public sector and the continued rise in private payrolls. In addition, both January and December job numbers were revised upwards (284,000 and 223,000, respectively), resulting in a net increase of 61,000 jobs. The unemployment rate remained at 8.3% as some previously discouraged workers returned to the improving labor market in search of jobs.

Manufacturing: After three consecutive months of improvement, the ISM manufacturing index for January declined slightly. January durable goods orders fell sharply from December, driven by weaker machinery and transportation product orders. Some of this weakness stemmed from the expiring tax incentive for full depreciation of capital goods, which expired at the beginning of 2012. Morningstar economists believe that while a stronger manufacturing sector provided a big psychological lift, at this stage of the recovery it is not going to be the key driver that it was earlier. The larger services sector has to do better at this point to sustain the recovery.

Housing: January's existing-home sales continued to show signs of life, growing to 4.57 million units, the second-best report in the last 18 months. To put that number in perspective, this metric peaked at 7.27 million units in 2005 and bottomed at 3.30 million units in July 2010. However, other than brokerage commissions, new furniture, and maybe an increase in remodeling expenditures, the existing-home sales statistic typically does not have a large direct impact on GDP, employment, or production, though it is a great indicator of long-term consumer confidence. The Case-Shiller pricing data for homes in December, on the other hand, was a disappointment and showed an accelerated decline from prior months.

Inflation: Commodity markets reacted strongly to positive economic data, with oil closing above $100 a barrel. (Iran's saber-rattling didn't help). Unfortunately, commodity inflation sours consumer spending. But U.S. inflation continued to improve despite the jump in gasoline prices, changing only 0.2% on a month-over-month basis (2.4% annualized). The primary reason inflation came in better than expected was because of a massive 2.9% decline in natural gas, cancelling out the well-publicized rise in gasoline prices.

Applications for property tax exemptions available

Counties, municipalities and townships throughout Illinois have announced that property-tax exemption booklets and electronic applications are now available. (Counties may have different requirements for the exemptions listed below, so please review the specific property tax laws for your area.)

The three main exemptions that Illinois homeowners may apply for include:

Homeowner exemption – Available to most Illinois homeowners whose properties were occupied by the homeowner or by the previous homeowner and used as a primary residence as of Jan. 1, 2011. Entitles these homeowners to a reduction in the equalized assessed valuation of the property.

Senior citizen exemption – Available to most Illinois homeowners who were born prior to, or in, the year 1946 and who use the home as their primary residence. The exemption entitles a senior citizen to a reduction in the equalized assessed value of the property. Taxpayers receiving the senior exemption will automatically receive the homeowner exemption. Please Note: State law now requires homeowners to apply annually for the senior citizen exemption.

Senior freeze exemption – Available to most Illinois homeowners who were born prior to, or in, the year 1946 and have household incomes of $55,000 a year or less for tax year 2010. Requirements also state that eligible seniors must have used their home as their primary residence and resided there on Jan. 1 of 2010 and 2011. This valuable exemption protects limited-income senior citizen homeowners from increases in the equalized assessed values of their properties.

Depending on your county of residence, you may also be able to claim the following: Home improvement exemption, veterans' exemption, additional senior exemption, and persons with disabilities exemption.

Homeowners who received the homeowner exemption last year and did not sell their homes in 2010 do not need to reapply for the exemption this year. The senior citizen and senior freeze exemptions must be applied for annually.

Taxpayers who wish to apply for any of the exemptions for the first time this year may download the taxpayer exemption application from their county or township assessor's web site or contact the local assessor's office to have an application mailed to them. Please contact Mentor Capital Management Inc. with any additional questions.

Simple Steps for Late Savers

The sooner you start putting aside money for retirement, the more you might have once that highly anticipated day arrives. Saving for college tuition, purchasing a new home, unforeseen medical expenses, or life's other necessities, surprises, or even enjoyments can cause investors to postpone saving. Starting the retirement planning process late in one's life can be daunting, but it is by no means impossible.

Crunch the Numbers: The first step to getting back on track is to put together a budget—this will force you to focus on your financial situation and can serve as a roadmap to success. Once you have outlined all of your expenses, simply subtract the total from your net income. The result will give you a clear indication of how much you can potentially save, and also help you identify areas in which you may be spending too much.

Cut Any Unnecessary Expenses: There are essential expenses that cannot be eliminated: food, electricity, etc. However, most people can identify some areas, like entertainment, that are not vital to one's existence and can be cut back on. The more areas that you can trim will lead to more money that can be earmarked for retirement.

Take Advantage of Catch-up Contributions: Catch-up contribution limits allow investors age 50 and above to increase their contribution. For example, they can make an extra contribution of $5,500 to their 401(k) in 2011, equating to a maximum contribution of $22,000. IRA catch-ups are $1,000 in 2011, leading to a maximum contribution of $6,000.

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John S. Davis, CFP
President

Mentor Capital Management Inc.
105 S. York Street
Suite 450
Elmhurst, Illinois 60126

john@mentoradvisers.com
www.mentoradvisers.com

Tel:630-530-1191
Fax:630-530-1442