Mentor Monthly Missive

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Roth IRA Versus Defined Contribution Plan

Contemplating whether to contribute to a Roth IRA or a defined contribution plan (such as a 401k)? Words of advice: Follow the money! If your company offers you a match for your DC plan contribution, you should keep investing in the account up to the maximum percentage that it will match. This is free money, and you won't find a better deal any place else.

After you've maxed out the match, it's probably wise to invest any remaining cash in a Roth IRA. You can put in as much as $5,000 in 2012 ($6,000 if you are 50 years or older), as long as your income doesn't top certain levels. You won't get any tax deductions with the Roth, but you won't have to pay any taxes on it for the rest of your life, which can turn out to be an advantage over a DC plan. Another plus for the Roth is that you can keep your money there forever, as opposed to a plan like a 401(k), from which you have to start taking withdrawals by age 70 1/2.

With a Roth IRA, one big advantage is the ability to take certain early distributions without paying the early distribution penalty. However, if you withdraw assets from an employer plan before retirement, you'll pay a penalty and taxes, but many firms offer employees the option of taking loans from their accounts.

If you're fortunate enough to still have money to invest after you've maxed out on your Roth IRA, then by all means start putting it back into your DC plan. It's a good idea to have retirement money in different types of accounts, because you never know what the tax laws will be 30 years down the road. Please consult with a financial advisor or tax professional for the latest rules and regulations.

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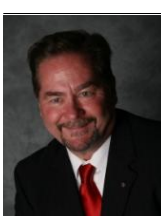

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Mentor Capital Management Inc. was founded in response to the belief that a consumer's best interests are served when his or her financial planner is Fee Only. Advisors of Mentor Capital strive to provide objective, prudent and thoughtful advice to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

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Monthly Market Commentary

In early September, the European Central Bank took steps to ease monetary policy and China introduced new infrastructure stimulus measures, as economic news in both regions continued to show signs of slowing. Both these actions have led many to expect the Federal Reserve to do the same with some form of quantitative easing, following poor manufacturing data and a softer-than-expected employment report in August. Morningstar economists believe that lowering rates further may do little to help the economy. Corporations are already awash with cash, while consumers are still finding it difficult to get loans at these low rates. Furthermore, commodities are on the rise again with gold setting a five-month high, and oil prices moving higher.

GDP: Second quarter real GDP was revised upward to 1.7% from 1.5%, which typically means that things were stronger in the last month of the quarter than originally anticipated. Overall, consumer spending was revised up, exports also improved (despite turmoil in Europe), and government spending shrank less than previously estimated. Although the quarter-to-quarter data over the last 2 years continued to be extremely volatile (ranging from 0.1% to 4.1%), the year-over-year data shows GDP growing at a slow but consistent pace (1.6% to 2.8%).

Employment: August saw a disappointing 96,000 jobs being added, down from 163,000 jobs in July. Morningstar economists have highlighted a few inconsistencies over this data: at a time when new and existing home sales were up, the report indicated construction employment did not grow at all. Also, the employment at building material and garden centers was reported to have fallen by almost 10,000 people, which Morningstar economists felt was unlikely, given the better construction market. An unusually large number of employees (380,000) left the workforce in August, which caused the unemployment rate to drop to 8.1% from 8.3%. Morningstar economists believe that this was mainly because of students returning to school from their summer jobs. While seasonal adjustment factors are typically supposed to capture this change, many schools and universities are shifting the start of their school year earlier in August. The high dropout rate could also have come from more employees quitting, or ceasing to look for jobs, to go back to school due to poor economic prospects.

Housing: The housing recovery has continued long enough that both leading indicators (pending home sales) and lagging indicators (Case-Shiller Home Price Index) were moving in the same positive direction. July pending home sales jumped 2.4% compared with June and 12.4% compared with July 2011. It is important to note that pending sales have been higher than closed sales all year, as the failure of homes to appraise at the agreed-upon price and tight lending conditions are holding back closings. In June, the Case-Shiller 20-city index increased 0.5% on a year-over-year basis, which marked the first year-over-year increase in two years. Although the index just broke into positive territory, the improving trend has been in place for six consecutive months. Month-to-month data showed a 2.3% increase, and all 20 cities in the index showed home price improvement.

Manufacturing: U.S. manufacturing in August continued to slow, as new orders fell and inventory levels increased. However, auto sales accelerated to 14.52 million units in August, the best performance since the cash-for-clunkers promotion in 2009. Year-over-year sales growth of over 20% was inflated by a strong recovery from Japanese brands that suffered supply shortages last August because of the tsunami. Pent-up demand and low cost has also resulted in the Detroit Big Three reporting year-over-year gains of more than 10%, mainly from pickup truck sales. Outside the U.S., manufacturing in Europe continued to weaken, including Germany, because of softer orders from China. China's manufacturing sector also underperformed, reporting its lowest level since 2009.

Eliminate Your Value Gap

If you own a business and plan on selling it in the future, it may be wise to consider potential gaps between your own perceived value of your business and its actual fair market value. This value gap could blindside a business owner, especially one nearing retirement.

In an increasingly challenging mergers-and-acquisitions environment, the formula is simple: business owners and management teams who are highly prepared, diligent, and organized for a liquidity event (e.g., sale of company) yield more successful outcomes that are more in line with the business owner's financial goals and objectives than those who are less prepared and wait until the last moment. Receiving a business valuation from an accredited and independent valuation professional may give you more certainty surrounding your retirement plans and may eliminate this value gap.

Ideally, succession planning for your business should start earlier rather than later, as understanding the value of your business today will help prepare you for a liquidity event tomorrow. From gathering detailed information about your company to analyzing projections and conducting management interviews, the valuation process can provide you with a detailed understanding of key value and risk drivers that affect your business. The valuation professional's concluded value is the starting point in your succession and shareholder planning process. Your initial value can also be used as a catalyst to learn how short- and long-term decisions impact value over time and can ultimately change your retirement situation.

If you are interested in learning more about the business valuation process and whether a valuation is right for you, consider talking to your advisor about their relationships with business valuation specialists.

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