



Mentor Monthly Missive

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Mentor Capital invests in state-of-the-art technology

There is good news for clients of Mentor Capital Management Inc.

Over the next several months we will be rolling out technological enhancements that will give clients instant access to consolidated account information, improve communications between them and their advisers and give us robust new tools for managing investment portfolios.

All this is part of Mentor Capital's continuous effort to provide clients with the highest level of service available in the wealth management arena. For details, please see Page 2.



John S. Davis, CFP
President

john@mentoradvisers.com
630-530-1191
www.mentoradvisers.com

Meet our Wealth Managers

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.

Mentor rolling out investment management system

If we've seemed really busy over the last several months, it's been because we've been preparing for the introduction of a new management system to streamline our investment processes and enhance client communication.

Morningstar Office is an integrated investment-management system with built-in customer relationship management functions. We began in August 2012 to migrate our current system to Morningstar Office and recently completed conversion of our investment database. This involved the secure transfer of more than 1.77 million records (21 years of data) to the Morningstar Office system. It was quite an undertaking.

We're glad we committed to it, though, because already we're reaping the benefits. Office's new tools are helping us to identify investment opportunities and streamlining operations.

When the system is fully functional, projected to be on or about July 1, we expect to see the following benefits:

- A web portal allowing clients to log in securely to our system and retrieve reports and other documents – including this newsletter.
- Instant access for our advisers to Morningstar analysis and commentary on thousands of mutual funds, ETFs, stocks, annuities, hedge funds and separate accounts.
- Investment planning functions that will allow us to help clients stay on track toward reaching their financial goals and objectives.
- The ability for us to download security pricing and account transactions seamlessly from Schwab Institutional Services, where most client assets are held.

We expect these benefits to flow to our clients' bottom lines as we strive to bring them consistently high returns and manage risk.

If you are a client of Mentor Capital, watch for direct communication from us soon about access to your web portal and samples of new reports. If you are not a client but would like to see the capabilities of our new system, call to set an appointment for a no-obligation consultation.

Monthly Market Commentary

Recovery, full steam ahead? It would appear so. The stock market returned 11.02% during the first quarter of 2013, and the U.S. economy continues to grow at a slow but steady pace, despite apparent volatility and instability displayed by most major economic indicators.

GDP: For starters, real GDP growth rates have been highly volatile from quarter to quarter; for example, from 3.1% in Q3 2012 to only 0.1% in Q4 2012. However, it's important to keep in mind that the data includes some measurement and seasonal-adjustment issues that may blur the big picture a little bit. Morningstar economists forecast that GDP will grow at a slow, but sustainable 2.0%–2.5% rate in 2013, very similar to 2011 and 2012.

Employment: The private sector added only 95,000 jobs in March (compared with 254,000 in February). At first glance, this number is discouraging, and the lowest in nine months. However, similar to the case for GDP above, month-to-month data is volatile, influenced by weather and other seasonal factors, and often subject to revisions. Three-month average employment growth (YOY), a more reliable data point, does show slow erosion, but no catastrophic decline (2.1% in December, 2.0% in January, and 1.9% in February and March).

The Big Four: Given all the fiscal scares, Hurricane Sandy, volatile gasoline prices, and new taxes, the U.S. economy is doing surprisingly well, according to the Big Four economic indicators (private employment growth, retail sales, manufacturing, and real disposable income). Private sector year-over-year employment growth has been steady at 2% for almost two years, while retail sales growth (adjusted for inflation and excluding autos and gasoline) has been in the 2%–3% range for almost as long. Even U.S. manufacturing data hasn't been particularly volatile, especially if weather events are removed. Of the Big Four, only real disposable income has been very volatile, and most of that volatility is due to ever-shifting inflation rates (with food and energy showing the most volatility) and changes in government tax policy, not changes in wages.

Consumer: Consumer spending continues to drive the economy, constituting about 70% of GDP.

Unfortunately, consumers were severely hit early in 2013 with soaring gasoline prices, a higher payroll tax, and delayed tax refunds. On the other hand, they also have a lot going for them, including lower inflation in many categories, better employment prospects, increasing home prices and related construction activity, and a much higher stock market and related wealth effects. While consumer spending is not as robust as it once was, it is clearly not falling apart in the middle of all the economic headwinds, either.

Quarter-end insights: A lot of fiscal issues were at least temporarily "settled" this quarter, helping to reassure both consumers and businesses. The fiscal cliff negotiations and the March sequestration resulted in a total deficit reduction of about \$300 billion slated for 2013. The Fed plans on maintaining a relatively loose monetary policy, assuring investors that low interest rates and bond buybacks would continue to fuel further growth. As slow as this growth may be, the U.S. economy is better positioned and growing faster than many other developed economies. Some of the factors providing a longer-term advantage include newfound supplies of oil and gas, low electricity prices, more available land for building, and an improving auto industry.

In Europe, however, the situation isn't getting better, even when excluding the effects of the Cyprus situation. The Chinese economy seems to have bottomed, and future Chinese growth (if any) will likely be lower than previous peaks, and more likely to be consumption based than focused on infrastructure. Last, but not least, U.S. corporations are starting to invest for growth again (capital spending and acquisitions), which could prove to be an effective engine for further stock market appreciation.

Don't Forget to Raise Your IRA Contribution

In 2013, contribution limits for both traditional and Roth IRAs (individual retirement accounts) will increase to \$5,500 a year for those 49 years of age or younger. If you are 50 or older, the maximum contribution is \$6,500. This limit can be split between a traditional and a Roth IRA. These annual contribution limits are imposed by the Federal Government.

The graph shows both a \$4,500 and \$5,500 annual contribution growing at a hypothetical 8% annual return. Notice the dramatic impact on the ending value of the portfolio. This may be a great time to re-evaluate your financial situation and increase your annual investment to your IRA. Even if you are unable to max out your contribution, any increase you can afford may help you reach your savings goals more easily in the long run.

Hypothetical Growth of Annual IRA Contribution



This is for illustrative purposes only and not indicative of any investment. Funds in a regular IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free as money withdrawn is not taxed. Penalties may apply for withdrawals prior to the age of 59 1/2.

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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