Mentor Monthly Missive

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Saving for an Emergency

According to a recent survey conducted by Bankrate.com, 28% of Americans have no emergency fund, up from 24% a year ago. About 49% of people surveyed said they had no emergency savings or less than three months' expenses.

The traditional prescription for life's financial emergencies is to hold three to six months' worth of living expenses in cash. Only 25% of those surveyed said they had enough to cover six months' or more of expenses. In a low-yielding environment, many are concerned that keeping aside six months' of emergency savings is a lot of money to have sitting in the bank earning next to nothing. While this is a valid concern, customizing your emergency fund to fit your personal situation may serve as a viable solution.

Consider holding a larger emergency fund (six months to a year) if you have a high paying job, are self-employed, work on a freelance/contract basis, have dependents, have a nonworking spouse, have high fixed expenses (mortgage, auto loan, tuition bills), or have a pre-existing medical condition that could result in hefty health-care bills if you were forced to purchase private health insurance. On the flip side, you may be able to get by with a smaller emergency fund if you:

1. Have a good degree of career flexibility because you are in a lower-paying position and/or haven't yet developed a specialized career path.

2. Have other sources of income that could help defray a large share of household expenses, such as a working spouse.

3. Have a great degree of lifestyle flexibility (for example, you would be willing to relocate).

Source: Bankrate.com Financial Security Index survey, June 25, 2012.

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Meet our Wealth Managers

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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.

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.

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A last resort: Early withdrawal from retirement account

Although tapping a retirement account before you're retired should be considered a last resort, sometimes there's no alternative. Unemployment, medical emergencies and other serious, unforeseen circumstances sometimes make it the only option.

Unfortunately, you'll pay federal income tax at your highest marginal rate on any distribution that is not a qualified Roth distribution. Your savings will be depleted, resulting in a potential shortfall when it comes time for you to retire. In addition, a 10% penalty applies to most distributions if you are younger than 59 ½ for the entire tax year in which the distribution occurs.

Although there is no getting around the federal income tax due, there are 11 specific and limited exceptions to the 10% penalty:

Separation – If you are 55 or older (50 for qualified public safety employees) and leave your employer, you may withdraw from your qualified retirement plan without penalty.

Periodic payments – Distributions made as part of a series of substantially equal periodic payments (made at least annually) for your life or life expectancy, or the joint life or life expectancies of you and your designated beneficiary. If from an employer plan, payments must begin after separation from service.

Disability – must be total and permanent.

Death

Medical – Up to the amount you paid for unreimbursed medical expenses during the year minus 7.5% of your adjusted gross income for the year.

Domestic relations – Made to an alternate payee under a qualified domestic relations order (does not apply to IRAs).

Unemployed health insurance – From an IRA, made to unemployed individuals for health-insurance premiums.

Higher-education expenses – From an IRA.

First-time homebuyer – From an IRA, for purchase of a first home, up to $10,000.

IRS tax levy

Active-duty reserve – To reservists while serving on active duty for at least 180 days.

There may be an alternative to tapping a retirement account early. Call us to discuss whether an option may be available to you.

Monthly Market Commentary

January saw a mixed bag of economic news for both bulls and bears to feast on—negative GDP report, positive employment adjustments, and a good long-term housing trend overshadowed by inventory shortages of homes, new or used, in the short-term. Morningstar economists believe that the market's positive reaction to the seemingly bearish but actually bullish GDP report was the correct interpretation. However, bad weather, the bad GDP report, the temporary shortage of home inventories, and the increased payroll tax and tax refund delays will likely weigh on upcoming economic reports.

GDP: The first estimate of GDP indicated that the economy shrank 0.1% in the fourth quarter of 2012, compared with growth of 3.1% in the third quarter. Consumption, business investment, and housing components of GDP all did better than expected, while government and inventories were the main detractors. While the negative GDP number was shocking, closer examination suggested that government bill payers and overly cautious businesses were largely to blame for an otherwise excellent report.

Employment: January employment grew at a satisfactory pace, with 157,000 jobs added. More importantly, significant annual revisions showed exceptionally strong employment growth in the fourth quarter of 2012. Construction and retail were standout performers after the adjustments, while most other categories did not show meaningful changes. Employment growth for the whole of 2012 averaged 181,000 per month, up from 153,000 per month prior to the upward revisions. Unfortunately, the U.S. economy has still only just recovered 5.5 million of the 8.7 million jobs lost during the recession. The unemployment rate in January inched upwards to 7.9% from 7.8% the month before.

Housing: Housing starts soared in December, coming in at 954,000 units compared with just 851,000 units the previous month. The good news is the growth was geographically dispersed and included nice improvements in both single-family homes and apartments; the bad news is that current housing starts are still well below 50-year averages (about 1.5 million units). On the other hand, new-home sales in December came in at 369,000 units sold compared with the recovery record of 398,000 in November. In case you were wondering why there is such a huge variance between housing starts and new-home sales, the biggest difference is that new-home sales only reflect single-family homes while housing starts include a range of single-family homes to giant multifamily apartment buildings. Since the bottom of the housing crash, non-single family home starts have more than quadrupled, while single-family starts were up an impressive but more modest 66%.

Manufacturing: Although U.S. manufacturing isn't generally important enough to move the economic needle at this stage of the recovery, news in the last week of January was surprisingly and uniformly positive. Morningstar economists believe that given continued strong consumer purchases and improvements in China, a rebounding manufacturing sector should come as no surprise. However, the most recent GDP report does suggest that the manufacturers badly misgauged consumer demand in late 2012, and had shrunk inventories when they probably should have been expanding them. Outside the U.S., manufacturing in China and Europe has recently improved as well, with January's data indicating 24- and 10-month highs, respectively.

Auto: Excellent auto sales in January (15.28 million units) also proved to be encouraging news for the economy, with year-over-year sales up 14%. This number came very close to the highest month of 2012, which was November (15.5 million units), although November's number was aided by restocking after Hurricane Sandy.

Focus on Small Business – Oh, Olive!

Focus on Small Business

- Let us know if you have an idea for Mentor's Focus on Small Business. We love to share success stories.

As small-business owners, we enjoy hearing about the success of other small businesses. We appreciate the hard work and persistence that go into creating a successful enterprise. Beginning with this issue of the Monthly Missive, we'll occasionally profile a small business owned by one of our clients or within a client's sphere of influence. Today we introduce Kristian Koerwitz and the story behind Oh, Olive!

Sandy Scheunemann and Mary Koval loved to cook for their families and insisted on using only the highest-quality ingredients. On tasting fresh, true extra-virgin olive oil, they knew what they had to do – share this with as many folks as possible! So two years ago they opened the first Oh, Olive! in Libertyville. They were joined by Sandy's daughter-in-law, Alecia, when they opened their second location at The Glen in Glenview. Next came a location at the French Market in Chicago's Ogilvie Station. When an opportunity arose to expand into Chicago's Lincoln Park, they were running a bit low on family members. So they invited family friend Kris Koerwitz to join the clan.

In Lincoln Park, at 904 W. Armitage Ave., Kris and Oh, Olive! offer 29 natural and flavored extra-virgin olive oils and 22 balsamic vinegars for sampling along with spices, teas, pastas, chocolates, stuffed olives and salsas. When you visit any of the stores, be prepared to spend some time learning about olive oil's health benefits as well as easy ways to incorporate it in your daily diet. You don't have to be a gourmet chef to use the products you'll find at Oh, Olive! The staff is very knowledgeable about the products and can make suggestions for all levels of home chef. You can visit Sandy, Mary, Alecia and Kris at Oh, Olive! in Lincoln Park, Libertyville, Glenview, or the French Market at Chicago's Ogilvie Station. Visit their website at www.ootogo.com.

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