Mentor Monthly Missive

Financial Planning News
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How to Add a Real Asset to your Portfolio

Real estate investments should have a presence of some size in nearly everyone's portfolio. As an asset class, real estate offers an alternative to U.S. and foreign developed stock markets. It's considered to be a cyclical asset class, like stocks, in that its values rise and fall with the growth of the economy.

Like bonds, though, real estate values don't always rise and fall in lockstep with those of equities. This lack of correlation can enhance long-term growth and reduce risk in a portfolio.

There are lots of ways to invest in real estate. Most of us own homes, and although a personal residence is considered to be a personal asset rather than an investment asset, a home does offer the possibility of appreciation – and, as we found out during the financial crisis, the possibility of loss.

Beyond a home, investors who are comfortable with being a landlord and who have sufficient funds (and credit) can buy residential, commercial or industrial rental properties. Such assets offer the possibility of gains as well as current income with some tax benefits

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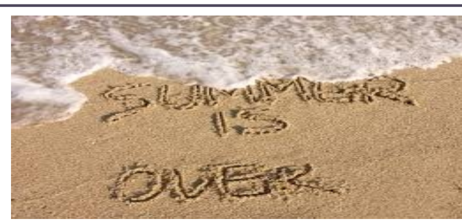
Mentor Capital Client Corner

As part of a new initiative, Schwab, along with partner DocuSign, is rolling out eSignature capabilities for a majority of Schwab forms. From Schwab Advisor Center, we will be able to create electronic packages of forms that clients and prospects can review, complete, and sign online.

Schwab’s eSignature offering ultimately will eliminate virtually all hard-copy requirements for most common forms, minimizing needless back-and-forth and multiple hard-copy signatures and allowing for faster account opening while still maintaining the highest levels of security and privacy.

We will have the ability to pre-fill fields on forms and highlight fields for clients to complete. Clients will receive a customized e-mail notification instructing them to review, complete and electronically sign the form. Additionally, we will be able to check into Schwab Advisor Center at any time to see the status of an application or form.



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.

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Most of us, though, are best served buying real estate through investment pools that offer broad diversification as well as professional management. Such stocks are called real estate investment trusts (REITS). REITS are available individually or through mutual funds and exchange-traded funds.

By law, and to avoid double taxation, a REIT must pay out 95% of its net profits. This, plus the fact that the payouts for most REITs and REIT funds are fairly stable, makes REITs a nice choice for retirees seeking current income.

The average 12-month yield on 29 global and domestic exchange-traded funds tracked by Morningstar was 4.26%; on 521 open-end mutual funds it was 2.03%; and on 408 REIT stocks it was 5.42%. Variance in yields can be ascribed to fund management fees, which can drag down income, and the fact that some REITs are liquidating properties or borrowing to make distributions.

Fund and stock REITs are very easy to buy and sell; their prices are set every day, and in the cases of ETFs and REIT stocks, throughout the day. Shares are priced by the markets based on supply and demand.

There is another type of REIT that doesn't trade on any exchange, called a non-listed REIT. This is a pool of real estate assets that is offered to qualified investors directly through a prospectus from the underwriter. Two advantages of a non-listed REIT: It tends to be less volatile, because it isn't subject to the whims of stock-market investors; and it can be less expensive to hold, since the underwriter doesn't have to comply with the requirements for listing on an exchange.

Two other issues can be negatives for non-listed REITs: liquidity and valuation. Most non-listed REITs cannot be sold, because there is no active market for them. They are designed to experience some type of liquidity event in the future – either a sale, a merger or listing on an exchange. Until one of those events takes place, the investor is locked in for the most part.

In addition, because there is no active market for most non-listed REITs, their worth cannot be accurately assessed at any given time. The investor has to be content collecting his or her income (not a bad thing at all) and “someday,” getting back principal.

At least one non-listed REIT has overcome the valuation and liquidity issues by engaging with a third party to have its shares priced every day. The Cole Income Strategy Real Estate Investment Trust is available to qualified investors ($70,000 of net worth and $70,000 of income, or $250,000 of net worth).

State Street, an independent fund accountant, sets share price each day based on portfolio makeup and what's going on in the real estate market and the economy. The REIT's redemption plan allows investors to sell back their shares on a daily basis, but limits total sales to 5% of total net assets at the end of the previous quarter.

Call us if you'd like to discuss employing real estate in your investment portfolio.

Health Insurance Marketplace Check-Up

If you have insurance through the Health Insurance Marketplace, you may be getting advance payments of the premium tax credit. These are paid directly to your insurance company to lower your monthly premium. Changes in your income or family size may affect your premium tax credit.

If your circumstances have changed, the time is right for a mid-year checkup to see if you need to adjust the premium assistance you are receiving. You should report changes that have occurred since you signed up for your health insurance plan to your Marketplace as they occur.

Changes in circumstances that you should report to the Marketplace include, but are not limited to:

- An increase or decrease in your income
- Marriage or divorce
- The birth or adoption of a child
- Starting a job with health insurance
- Gaining or losing your eligibility for other health care coverage
- Changing your residence

Reporting the changes will help you avoid getting too much or too little advance payment of the premium tax credit. Getting too much means you may owe additional money or get a smaller refund when you file your taxes. Getting too little could mean missing out on premium assistance to reduce your monthly premiums.

Repayments of excess premium assistance may be limited to an amount between $400 and $2,500 depending on your income and filing status. However, if advance payment of the premium tax credit was made but your income for the year turns out to be too high to receive the premium tax credit, you will have to repay all of the payments that were made on your behalf, with no limitation. Therefore, it is important that you report changes in circumstances that may have occurred since you signed up for your plan.

Changes in circumstances also may qualify you for a special enrollment period to change or get insurance through the Marketplace. In most cases, if you qualify for the special enrollment period, you will have sixty days to enroll following the change in circumstances. You can find Information about special enrollment at HealthCare.gov.

Have a question?

Do you have a question or want more information about any of the issues discussed in Mentor's Monthly Missive? Are you concerned about whether the financial decisions you're making are right for you? Would you like a second opinion about an action you're thinking of taking or something recommended to you by a stockbroker or insurance agent?

We offer a no-obligation initial consultation that might help. Please phone to set an appointment with one of our advisors. It could be the most financially worthwhile 45 minutes you've ever spent!

Market Commentary from Vanguard & Co.

Consumer spending engine is in gear

Consumer spending habits featured prominently in this week's relatively short list of economic reports. The news was encouraging for the overall growth of the economy during the third quarter, as both consumer credit and retail sales advanced.

For the week ended September 12, 2014, the S&P 500 Index fell 1.1% to 1,986 (for a year-to-date total return—including price change plus dividends—of about 9%). The yield on the 10-year U.S. Treasury note rose 16 basis points to 2.62% (for a year-to-date decrease of 42 basis points).

Credit card borrowings pick up

Consumer credit, excluding mortgages, rose $26.0 billion in July to a total of $3.24 trillion, according to Federal Reserve data. The higher-than-expected annualized growth rate of nearly 10% from June was the largest in three years and indicates stronger consumer spending, which accounts for more than two-thirds of the U.S. economy.

Purchases of big-ticket items such as automobiles continued to represent most of the increase. However, there was a notable rise in credit card (revolving) debt, which advanced more than $5 billion. For the first time since before the Great Recession, revolving balances have grown for five consecutive months as more confident consumers loosen their grip on their wallets.

Retail sales advance

Retail sales for August increased 0.6% from upwardly revised July results, in line with expectations. The Commerce Department reported that August sales rose 5.0% from a year ago; this represented the largest comparable-month increase in more than a year. Auto sales, which had slumped in July, drove the increase. Excluding motor vehicles and parts, August sales increased 0.3% from July and 4.1% from a year ago. Miscellaneous retailers reported 2.5% higher sales in August compared with July, but department store sales decreased—as did gas station sales, thanks to the good news of lower prices at the pump.

"Reasonable increases in the use of credit and broad pickups in retail sales bode well for third-quarter gross domestic product. Our expectation for second-half growth of around 3% annualized seems on track," said Vanguard economic analyst Andrew J. Patterson.

The economic week ahead

A fuller slate of economic reports is scheduled for release next week, including industrial production, producer and consumer prices, the Federal Open Market Committee's monetary policy statement, new residential construction, and the Conference Board's leading indicators.

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