



An Independent Firm

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## 2nd Quarter 2014: Positive Returns – Alex

The equity markets posted solid gains over the last three months even though the Commerce Department revised 1Q GDP to a negative 2.9 per cent. After a hesitant start to 2014, the markets gained momentum as the winter doldrums gave way to slow spring growth. U.S. equities gained across the board in the first half of 2014. The DJIA and S&P 500 ended up 3% and 7% respectively, with the S&P closing at an all-time high (1963) on June 20th.

The overall mood of the markets was tempered by the unrest in Ukraine as the government continued to fight with Russian separatists and continued strife in the oil rich countries of Iraq, Egypt and Libya. Brent oil continues trade above \$112 a barrel, and some economists think rising gasoline prices could raise inflation fears.

Positive economic reports, including the U.S. Consumer Confidence Index (85.2, up from 82.2 in May) and better housing statistics, helped buoy the markets at the end of the quarter. Still, it seems the markets remain cautious to the idea that the slow pace of the U.S. economic growth may lead to inflation, prompting the Federal Reserve to raise interest rates in the near future.

We are always concerned about how economic and geopolitical factors affect our clients' portfolios. Market risk is always present, and how we react to it is important. I came across this quote that I think addresses risk in a different light, and I hope it will provide you a new insight.

*Risk, then, comes in two flavors: "shallow risk," a loss of real capital that recovers relatively quickly, say within several years; and "deep risk," a permanent loss of real capital... Shallow risk, if handled properly, deprives you only of sleep for a while; deep risk deprives you of sustenance... Stocks mitigate deep risk, but exacerbate shallow risk.*

Source: William Bernstein, from his book *Deep Risk*

Below are the year-to-date returns as of June 30, 2014:

| <b>Asset Class</b>             | <b>Index / Category</b>                | <b>YTD as of 6/30/2014</b> |
|--------------------------------|--|----------------------------|
| Cash & Cash Alternatives       | Average 1-year CD rate                 | 0.23% (annual yield)       |
| U.S. Govt & Corp. Bonds        | Barclays US Agg Bond TR Index          | 3.9                        |
| World Bonds                    | Morningstar World Bond Category        | 4.9                        |
| U.S. Large-cap Stocks          | S&P 500 TR Index                       | 7.1                        |
| U.S. Small-cap Stocks          | Russell 2000 TR Index                  | 3.2                        |
| International Developed Stocks | MSCI EAFE NR USD                       | 4.8                        |
| Emerging Market Stocks         | MSCI EM PR USD                         | 4.8                        |
| World Allocation               | Morningstar World Allocation Category  | 5.3                        |
| Diversified Commodities        | Morningstar Long-Only Commodity Index  | 7.1                        |
| Multi-Alternatives             | Morningstar Multi-Alternative Category | 1.8                        |

Source: [WSJ.com](#), [Morningstar.com](#), [Bankrate.com](#)

- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks.
- MSCI EAFE Index is an index, with dividends reinvested, representative of the securities markets of 20 developed countries in Europe, Australasia and the Far East.
- MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.
- Morningstar World-allocation Category includes funds that seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world, most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.
- Morningstar World Bond Category includes funds that invest at least 40% of bonds in foreign markets.
- Barclay's Capital U.S. Aggregate Bond index covers the U.S. investment grade-fixed rate bond market and consists of components for government and corporate, mortgage pass-through and asset-backed securities. Must be rated investment grade or higher by at least two of the following: Moody's, S&P, or Fitch, have at least one year left to maturity and an outstanding par value of at least \$250 million. Security representation would be those that are SEC-registered, taxable, dollar denominated, non-convertible and fixed rate.
- Morningstar Long-Only Commodity Index is a fully collateralized commodity futures index that is long all eligible commodities.
- Morningstar Multi-Alternative Category includes both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes. Average gross short exposures are greater than 20%.
- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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## **Update: Making Charitable Donations Directly from Your IRA – Alex III**

Over the past few years, several of our clients, who are in Required Minimum Distribution mode (over age 70½), have taken advantage of a now expired tax provision to make charitable donations directly from their IRAs.

In late May, the U.S. House of Representatives' top tax committee approved a proposal that would make permanent a tax deduction for charitable contributions from individual retirement accounts (IRAs).

Under the proposed bill, taxpayers age 70½ and older could make charitable contributions of up to \$100,000 from their IRAs and Roth IRAs without having to treat the money as taxable income. Such a provision was extended for 2012 and 2013 in the fiscal cliff bill that Congress passed in January 2013. As of the end of last year, it had expired for 2014.

It is uncertain if Congress and the President will approve this provision, as it may be bundled with other “tax extenders,” and the Obama administration seems to be reluctant to permanently extend tax breaks — as the piecemeal House bill would do — without having them paid for by cuts elsewhere in the budget.

At this time for clients with IRAs who are in RMD mode and considering charitable contributions for 2014, we would recommend potentially delaying your donation until later in the year to see if this bill is passed.

We will let you know if/when the bill is signed into law. In the interim, if you have questions about this proposed tax change, please give us a call.

*RJFS does not provide tax advice. You should discuss any tax or legal matters with the appropriate professional.*

## **Event Recap: Long-Term Care from a Health Care Perspective – Alex III**

On April 16<sup>th</sup> our guest speaker Eileen Dunn gave her *Long-Term Care from a Health Care Perspective* presentation. Those in attendance said the presentation was both interesting and informative.

A couple of interesting facts from the presentation:

- Two-thirds of current 65-year-olds will need some kind of long-term care services, and 20% will need care for longer than five years, according to the Department of Health and Human Services.
- Most long-term care is not provided in a nursing facility. 80% is provided at home or in a community facility. Source: The Caregiving Project for Older Americans "Caregiving in America" 2007
- Because women tend to live longer – an average of 5 years longer, according to the American Association for Long-Term Care Insurance – many women deal with long-term care issues twice: once in helping with the care of her spouse, and then after his death, she will likely need long-term care herself.

Several of our presentation attendees have requested more information regarding long-term care insurance (LTCi). We understand researching how much coverage, what type of coverage and which companies provide competitive policies can be time consuming and confusing, but we can help you.

We will help you understand whether or not you need to purchase LTCi, what your options are and how much coverage to purchase, as well as walk you through the application process. If you would like more information, please feel free to call to discuss this in more detail.

## **Looking for an Elder Caregiver or Care Manager? – Alex III**

Over the years, clients have occasionally asked us if we knew anyone who could help them manage elder care services for themselves or their parents or relatives.

We asked our guest speaker Eileen Dunn at the LTC event for recommendations. She suggested utilizing a Geriatric Care Manager via the National Association of Professional Geriatric Care Managers, <http://www.caremanager.org>.

So what is Geriatric Care Manager?

*A Geriatric Care Manager is a health and human services specialist who acts as a guide and advocate for families who are caring for older relatives or disabled adults. The Geriatric Care Manager is educated and experienced in any of several fields related to care management, including, but not limited to nursing, gerontology, social work, or psychology, with a specialized focus on issues related to aging and elder care. They also have extensive knowledge about the costs, quality, and availability of resources in their communities. (source: <http://www.caremanager.org>)*

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## Inside & Outside of PFS – Alex III

Half of 2014 is already behind us! It still amazes me how time flies faster the older we get!

On April 19<sup>th</sup>, my father and Peggy hosted a baby shower for Peggy's eldest daughter Katie Robinson and her husband Mark. They finally announced they would have a baby girl in August!! The expecting mother is doing well, and they are gearing up for their little one's arrival!

In late April I traveled to Boston for an investment manager due diligence conference. The two-day conference covered a range of investment themes. Some mutual fund managers said they expected the bull market to continue in the foreseeable future. One well-known manager in particular commented that the bull market may be coming to an end and stressed caution.

My wife Dasha traveled with me to Boston, and we extended our stay for a total of 6 days since neither of us had been to Boston before. We toured all of the main sites: Boston Common, Harvard University, Museum of Fine Arts, Beacon Hill and the North End (for the tasty Italian food and cannoli).

One of the highlights of our stay was the guided walking tour of the Freedom Trail. The Freedom Trail is a 2.5-mile route through downtown Boston that leads to 16 significant historic sites. The trail includes the Boston Common, the Old State House, Paul Revere's house and the USS Constitution in Charlestown.

The trail was originally conceived by Bill Schofield, a columnist and editor for the Herald Traveler. In March 1951 he wrote to Boston's citizens to promote the idea of a pedestrian trail to link together important local landmarks. John Hynes, the mayor of Boston, eventually decided to put Schofield's idea into action.

Aside from Washington D.C., Dasha and I haven't been to a U.S. city with as much American history as Boston, so we decided our Freedom Trail tour would be best with a guide. Enter Jeremiah Poope, our tour guide for the Freedom Trail. We enjoyed Mr. Poope's storytelling, enthusiasm for Boston's history and his humor.

On May 4<sup>th</sup> Dasha and I took my nephew Aiden to a Sporting KC soccer game with us. Since game time was in the early afternoon, we organized a little lunchtime barbeque at a friend's house beforehand. Aiden said he enjoyed the game, especially since it wasn't cold and we won... unlike the last time I took him. I think the bag of cotton candy he devoured this time also helped his enthusiasm. ☺

In the middle of May, Raymond James held our 2014 National Conference for Professional Development in Washington D.C. My father and Peggy decided to mix business with pleasure by extending the trip a few days and inviting Peggy's mother Mary Ruth to D.C. for her birthday. Since the trip also became a family outing, Peggy's daughters Sarah and Katie, Katie's husband Mark and my wife Dasha decided to join us too! The eight of us arrived a few days before the conference began and rented a house in the Capitol Hill area of D.C.

My cousin Mary, who works for U.S. Congressman Emanuel Cleaver in D.C., gave us a great tour of the Capitol building on the first day. She also arranged a White House tour for us. Most of us hadn't been to the White House before, so we were excited for the tour. Unfortunately, Mary could only get us 6 tickets, so my father and Peggy volunteered to stay behind and let the rest of us go. We were disappointed they couldn't go but were very appreciative.



*Jeremiah Poope giving us the Freedom Trail scoop in the Granary Burying Ground.*



Dasha, Katie, Sarah, Mark and Mary Ruth in front of the White House.

As you would expect, there were a few security checkpoints to go through. Once past security, our route was fixed and no guides were available. Occasionally, you could ask a Secret Service member a question or two, but where was Jeremiah Poope when we really needed him!?

The tour consisted of the ground floor and the State Floor, which contains the State Dining Room, Entrance and Cross Halls, Red Room, Green Room and the East Room. When presidents give major press conferences, they usually walk down Cross Hall to the East Room, where the podium, TV cameras, audience and press await. One final highlight was the presidential and first lady portraits positioned throughout the White House. Seeing those iconic paintings in person was a pleasant surprise for me – I'd forgotten they hung in the White House.

Another big highlight of the trip was seeing my aunt Teresa, uncle David and cousin Sophie who all live in D.C. We got to catch up with them a few times during our visit, and my father and David, ever the baseball fans, saw the Washington Nationals play the Cincinnati Reds one night. The last night everyone was in town, Sunday night before our conference started, we had an Italian family dinner at the house we rented. Good times, good wine and great family! Teresa, David and Sophie, we miss you very much!

As for the business aspect of the trip, the Raymond James' National Conference was again informative and helpful. We attended sessions covering various topics, including industry regulatory changes, market updates and understanding healthcare costs in retirement.

Over the past couple of months, my father and I have been whiffing, hacking and whacking our new golf clubs as we try to better ourselves at the driving range. We took some group lessons in April and have been practicing weekly since.



Petrovic and Meeder families together in D.C.!

This past month we finally ventured onto the golf course to put our practicing to the test. We have played Heart of America in Swope Park, Swope Memorial and Tomahawk Hills. We haven't thrown any clubs yet, but our patience has certainly been tested! We have enjoyed our times out on the links even if our scores haven't been pleasant.

Grandpa Alex has made our learning a bit easier, and we thank him for this, by giving us bags and bags of 'almost new' golf balls he has acquired from various (maybe nefarious ☺) sources. At least this way when we hit one into the water or out of bounds, we just grab another ball and take another hit. At this stage, we allow ourselves a few mulligans.

We know some of you play golf, but for those who haven't disclosed your love of the game, please let us know! By autumn we hope to improve further and are interested in meeting up with you on the links.

Over the June 14 weekend, we celebrated both Father's Day and my father's birthday. He wanted to keep it a low-key affair, so Saturday morning we had breakfast at the recent incarnation of The Corner Restaurant in Westport and then played golf at Heart of America. On Sunday evening we gathered at his house for some swimming and an awesome brisket dinner prepared by Peggy.

Last but certainly not least, my lovely wife Dasha passed her ninth and final test for her Chartered Property Casualty Underwriter (CPCU®) designation! She can now officially call herself a Chartered Property Casualty Underwriter. She has been working on this designation for a couple years, and she is pleased to add the CPCU® letters behind her name. Congratulations sweetie!



Dasha and I at the Jefferson Memorial.

My father, Arissa and I hope your summer is going splendid and you had a safe 4<sup>th</sup> of July holiday!

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