

2011 Third Quarter Review

In our previous newsletter, we alluded to our uptrend being in danger if economic growth was being forecast to become anything less than 2% real (inflation adjusted) GDP. In late July, we had real GDP come in way under the consensus forecast accompanied with a significant downward revision on the prior forecast. This started to stoke the fears of recession. Not helping matters was the political circus over the debt ceiling, the U.S. credit rating being downgraded as a result, and renewed concern regarding Europe's own debt crisis. A perfect storm.

The market responded, and responded rather quickly. What started on or around 7/25 quickly precipitated into a 200 point decline in the S&P 500 in a matter of 2 weeks. Since then, we've been stuck in a very volatile sideways trading pattern throughout August and September.

We are trained for long term investing, not timing the twists and turns in the market. That being said, we are not remiss to the increased risks around us. Due to increased market volatility, you may see larger than normal cash positions in your account(s).

We lean on the side of the U.S. avoiding recession, but if market participants lack confidence in our policymakers' ability to come to some kind of agreement to solve America's short term and long term problems and Europe's "what do we do with Greece" problem, it could turn into a self-fulfilling prophecy. The longer they fail to act, the longer the uncertainty in markets and volatility will remain, along with fears of a global recession becoming reality. This is why being properly allocated between stocks and bonds is so important for risk management. There are many uncertainties out there in the world – too many to try to time by jumping in and out of the market.

The Fed can only do so much. Their most recent attempt at helping the economy to overcompensate for a Congress unwilling to reach consensus on anything to help the economy was dubbed "Operation Twist." The idea is to reduce longer term treasury rates which are tied to consumer lending rates, such as mortgages, while keeping short term rates stable. Continued actions such as these are why we believe interest rates will stay lower for longer than most expect. The Fed can continue to intervene in the markets keeping interest rates low, even in the face of rising inflation in the future. The Fed has done this before. During the 1940's, the average 10 year treasury yield was kept below 2%, while inflation averaged 6% for the decade. They also managed to do this in the face of massive government deficits at the time. The Fed continuing to intervene in a sluggish economy is a very real possibility by historical standards. We will continue to focus on investments that have the best chance at generating positive real returns, after inflation.

- Chris Ginder, Vice President/Portfolio Manager

New 1099 Reporting in February

The IRS has recently modified tax reporting requirements. We would like to explain how the change will affect you.

One of the goals of the Emergency Economic Stabilization Act of 2008 was to make sure that investors accurately report gains and losses of securities in your annual tax filings. This year will be the first time that custodians like Schwab will report cost basis information to the IRS, as well as to you, the taxpayer.

For tax year 2011, Schwab will report cost basis to the IRS for equities acquired on or after January 1, 2011. Next year, Schwab will report cost basis to the IRS on mutual funds, ETFs, and dividend reinvestment plan (DRIP) shares acquired on or after January 1, 2012.

To help facilitate the reporting process and make tax preparation easier, Schwab has redesigned its Form 1099 Composite to include cost basis and gain/loss information. Now the Year-End Summary, Form 1099-B, and other 1099 forms you might receive will be consolidated into this one report.

The Form 1099 Composite has a new layout to allow for additional data fields. The data in the Year-End Summary (formerly Account Summary) is now grouped by Form 1040 schedules. The summary includes a table of contents to help you locate information you need.

New Information on Form 1099-B

- Cost basis
- Date the security was acquired
- Holding periods-assets are grouped by short-term and long-term to make it easier to identify holding periods
- Wash sale information
- An indication if the cost basis provided is not covered by the legislation

New Information in the Year-End Summary

- Realized gain/loss calculations
- Amortization and accretion information for fixed income assets
- Summary of fees

With all of your tax information sent in one report, you'll no longer receive a separate Year-End Gain/Loss Report from Schwab.

If you have any questions, or would like to schedule a time to review the new form and discuss the changes, please don't hesitate to call to schedule a time to talk.

Supplement to your TEAMX Prospectus

Many KLC clients recently received a mailing from Schwab Institutional containing a Supplement to the Prospectus for their Team Asset Strategy Fund (TEAMX). The supplement was sent to advise fund holders that the investment firm (TEAM) has decided to "activate" the 12(b)-1 fees for the Fund beginning next

March. A 12b-1 fee is an internal fee of the mutual fund. As an investor, you do not see it being paid from your holdings; however, it does affect the total return or performance of the investment.

TEAMX was chosen as a holding for your account(s) because of how well it compliments a portfolio of traditional equity and bond investments (the fund is known as a non-correlated asset – does not work in conjunction with the stock or bond markets). It gives the investor a different opportunity to profit by the ability to invest in Global Stocks & Bonds, Currencies & Commodities, whatever, wherever the fund manager feels is the investment place to be.

The fund's strategy is very useful during times when markets are in panic and it can help offset losses against the traditional stocks in one's portfolio which only gain value when prices go up. When times are good and stocks are going up, TEAMX can generate positive returns, albeit they may or may not be as high as the stock market. Thus you get the best of both worlds: an investment that can move up when stocks go down, but won't create too much drag on performance when your traditional stocks are in an up market and doing well.

KLC looks at the TEAMX as a bond portion of your portfolio in the traditional percentage stock/bond scenario. Although TEAMX invests in other asset classes, we are using the percentage of your holding in TEAMX to counter the market volatility.

Schwab MoneyLink®

We have talked about the great Schwab MoneyLink feature in several previous newsletters. This is an electronic funds transfer service enhancement that enables Schwab Institutional to easily move money between your Schwab accounts and your checking or savings accounts. You no longer have to wait for a check to arrive in the mail after requesting a distribution from your account. You don't have to send KLC a check for deposit to your investment account. KLC can make the transfer from your bank into your Schwab account for you with MoneyLink.

When you have MoneyLink, funds are generally transferred within one business day (as long as there is cash in your account to fulfill your request). And, you can set up transfers from multiple checking accounts.

Although this feature has been offered by Schwab for quite a few years, we noticed that some of our clients do not yet have it on their accounts. We will be mailing out a Schwab MoneyLink Form to these clients. Simply attach a voided check, initial and sign where indicated and return to us. It is a fabulous feature.

Also, if you currently have the MoneyLink feature linked to a bank account, but have changed banks recently, please contact us to request a new form.

Final bit of housekeeping! This is a friendly reminder that KLC is not a brokerage firm; you have a Schwab brokerage account in conjunction with the Registered Investment firm of Kuntz Leshner Capital (KLC). KLC is in contact with Schwab; we only have access to your funds through telephone or email. So, please know you can't call for money and pick up the check at KLC. You will have to wait for the funds in the mail unless you have MoneyLink!

2011 Charitable “In-Kind” Donations

You know the calendar year is winding down when KLC begins to remind people of year-end procedures. Especially this year, with the market having performed so well earlier this year, then plummeting in August and September, people aren't as inclined to gift shares of stock (in-kind) to charity. But, we do not know what is going to happen between now and year-end, and even with the market volatility, some stocks are at 52 week highs.

Thus, we ask that if you are considering gifts of stock to your favorite charity, that you contact Linda Weber, at KLC (291-0655) by early December and she'll prepare the paperwork for your signature so that Schwab has everything they need for the transfer to be consummated before it's too late for a 2011 charitable contribution. Don't want to miss giving a gift of stock rather than cash. 2012 will be here before we know it.

Prepare Your Spouse for Financial Independence

In households throughout the world, it is often common that one spouse is more “financially attuned” than the other. Rather than both taking the lead on financial matters, one spouse usually drives that ship for the most part. This can lead to a sticky situation if the aforementioned “captain” were to pass away (or if both were to pass away). The reality is that you need to prepare your partner to manage his or her own financial affairs. Let's go over some guidelines to get you started.

How to Locate Financial Documents. Needless to say, someone should know where things are located. Always keep an updated list outlining where you keep financial documents and other matters. This should be left with a trusted individual, such as your attorney or financial advisor.

Your list should include all financial accounts, account numbers, passwords, institutions and contact information. Include the location of your safe deposit box and its key and the combination to your home safe. Include the locations of important papers for annuities, appraisals, birth certificates, cemetery deeds, credit cards, property deeds, marriage certificates, divorce decrees, insurance policies, mortgages, income tax returns, retirement accounts, prenuptial agreements, titles for cars and estate documents. You should also include any hiding places of other items.

What to Keep and Where. If you have yet to properly store important documents, it is recommended that you do so, following these guidelines.

Bank Safe or Deposit Box. This is where you will want to put car titles, property deeds, business agreements and partnerships and a detailed home inventory of all valuables—including pictures, videos and appraisals.

Fire-Resistant Home Safe. In a fire-resistant home safe, keep a copy of your will and trusts, insurance policies, investment account numbers, passwords, original powers of attorney for health care and property (copies should be given to those people who are named as your agents) and a letter of instruction explaining your final wishes.

Home Filing System. In your home filing system keep three years of statements for insurance payments, bank accounts, investment and retirement accounts. Also be sure to maintain credit card and mortgage statements for the past year. In addition, it is highly recommended to maintain at least three years of tax returns (if not more).

Attorney's Office. At your attorney's office, you'll want signed and witnessed will and trust documents and copies of powers of attorney.

Who to Call, Who to Trust. Make sure your loved ones know where to find detailed contact information for your accountant, attorney, banker, financial advisor, life insurance and other agents, doctors (if you have children) and veterinarian (if pets need temporary care).

Share Financial Responsibility Now. You can help ensure a smooth transition by introducing your spouse to trusted advisors during your lifetime. You can also get your spouse slowly involved in the family's finances in general, eventually bringing him or her completely up to speed. This should bring comfort and reassurance for everyone involved.

KLC Adds A New Member to Their Team



Lauren joined KLC in June to learn the ropes of both the investment and operations sides of the business and eventually develop into a client relationship/business development role. She moved back to Lancaster from West Virginia where she was working for PNC Bank and attended West Virginia University. Lauren is currently working on passing her series 65. Please join us in welcoming Lauren and we look forward to you meeting her!