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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

August 2014

Hello The Financial Formula readers! Summer is winding down, but this month's newsletter should get you up to speed (financially-speaking of course)! Please email or call us if you have any questions - thanks so much!

Martin A. Federici, Jr.
MF Advisers, Inc.
CEO
marty@mfadvisers.com
570-760-6524
Fax: 570-675-7105
91 Franklin Street
Dallas, PA 18612
http://mfadvisers.com

In This Issue

Your Advisor: A Partner in Pursuing Lifelong Financial Goals

Your advisor can help you review your financial goals and time frames and match them to your tolerance for investment risk.

Need help managing your financial life? An investment professional is a tremendous resource to tap for financial planning information throughout your lifetime. For instance, your financial advisor can help you with:

Short-term savings: Avoid piling up debt when unexpected expenses come your way by having at least three months of living expenses available at all times. If you don't have an "emergency" fund, your financial advisor can help you figure out how to build one.

Investing for long-term goals: Your investment professional can help you determine how much you will need to retire and then work with you to build a portfolio to pursue the kind of retirement you have in mind. He or she can also help you come up with creative funding solutions for your children's education.

Estate planning: Contrary to popular thinking, estate planning is not just for the wealthy. Creating a will and naming a health care proxy (someone who makes medical decisions for you if you are incapacitated) and durable power of attorney (someone designated to decide financial matters if you are unable to do so) can make sure your wishes are honored. Consider using a qualified professional to develop an appropriate plan.

Three Tips for a Smooth Financial Meeting

Prepare for an appointment with a financial advisor by keeping this pre-meeting checklist in mind.

1. **Organize your thoughts and set priorities.** Think about your financial goals and time frames. Your advisor will be able to help you review these issues and match them to your tolerance for investment risk. Also discuss your top areas of financial concerns, such as reducing debt.
2. **Gather the appropriate paperwork.** You'll likely need to bring financial documents, such as investment account statements and tax returns, to your first meeting. Call in advance and ask what documents would be helpful.
3. **Prepare questions for your advisor.** It's important that you feel comfortable with your advisor and the services provided. Ask about the type and level of advice you should expect. Talk about how often you should meet for a "checkup" or to rebalance your portfolio.[1]

[1] *Rebalancing strategies may involve tax consequences, especially for non-tax-deferred accounts.*

July 2014 Market Recap

The U.S. economy swelled in the second quarter of 2014 after showing unexpected weakness in the winter months.

(For the month ended July 31, 2014.)

South American storm clouds darkened the market's horizons as July drew to a close, obscuring a strong surge in domestic output. Volatile and essentially trendless trading over the first weeks of the month ended sharply with nearly a 2% decline on the final trading day as news of Argentina's debt woes spread. All major benchmarks were off for the month, and the Dow Industrials edged into negative territory for the year. Meanwhile, the second-quarter 2014 earnings season is shaping well. More than two-thirds of the companies reporting so far have exceeded analysts' expectations. At the current rate of earnings growth, the market average growth rate could be more than 9% by the end of the year.

Through 7/31/14*	July	YTD	1-Year	3-Year Annualized	5-Year Annualized	Closing Value
S&P 500	-1.5%	4.5%	14.5%	14.3%	14.3%	1,930.67
Dow Jones Industrials	-1.6%	-0.1%	6.9%	10.9%	12.5%	16,563.30
NASDAQ Composite	-0.9%	4.6%	20.5%	16.6%	17.2%	4,369.77

Source: Standard & Poor's. The S&P 500, Dow Jones Industrials, and NASDAQ Composite are unmanaged indexes. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

*Price only. Does not include dividends.

Surge in GDP Early economic data show that the U.S. economy swelled in the second quarter of 2014 after showing unexpected weakness in the winter months. The first estimate of second-quarter GDP suggests that the economy is growing at a 4% annual rate from April to June. The final tally on the first quarter showed a 2.1% contraction, largely believed to be weather related and not a signal of recession.

Contradictions in the Housing Market Sales of existing homes this spring were strong--rising 2.6% in June to an annual rate of more than 5 million units. The advance follows strong upward momentum in April and May. However, the pace of new home sales went in the opposite direction, dropping to an annualized rate of 418,667 in the second quarter, down 6.4% from the comparable period of 2013.

Bond Market Update Yields edged lower in July, which implies a small increase in bond values. The benchmark 10-year note from the U.S. Treasury ended the month at just above 2.5%, just below the 2.53% mark it left when it opened the month. Corporate bond benchmark yields were comparably lower as well.

Beyond 401(k)s and IRAs: Think Tax-Efficiency in All Your Investment Choices

Municipal bonds have long been appreciated by high-net-worth investors seeking a haven from taxes and stock market volatility.

Obtaining a high rate of return is what drives most investors, but managing investment-related tax obligations should be an equally compelling investment priority -- especially for individuals in the highest income brackets. If you are interested in taking a more proactive approach to managing your tax burden, consider creating an investment plan that fully utilizes a range of tax-efficient strategies.

The Tax-Exempt Advantage

They may lack the flash and dazzle of stocks, but municipal bonds, or "munis," have long been appreciated by high-net-worth investors seeking a haven from taxes and stock market volatility.[1] Interest earned on municipal bonds is typically exempt from federal income taxes and may be exempt from state and local income taxes as well.[2]

Tax-Efficient Mutual Funds[3]

Some mutual funds are managed in ways that help reduce the tax impact on shareholders. These funds accomplish their goal by relying on a combination of tactics, such as minimizing portfolio turnover (the buying and selling of securities held within the fund), selling stocks at a loss to counterbalance gains elsewhere in the portfolio, and buying only those stocks that generate few dividends. Likewise, index funds often are considered to be more tax efficient than equity funds that adhere to a more active management style. Through their strategic mandate of buying and holding the securities held in a specific market benchmark, such as the S&P 500, index funds typically have low portfolio turnover rates.[4]

Shifting Income to Minors

Gifting assets to children via a Uniform Gifts to Minors Act (UGMA) account or a Uniform Transfers to Minors Act (UTMA) account can help reduce your overall income tax exposure. Although tax laws governing these accounts differ by state, in general you can "gift" investments, cash, or other assets worth up to $14,000 -- or $28,000 for married couples -- to a child, grandchild, or other minor beneficiary in 2014 without incurring a federal gift tax.[5]

Current tax rules state that the first $1,000 of a child's investment income generally is tax-exempt, the next $1,000 of unearned income generally is taxed at the child's tax rate, and unearned income over $2,000 generally is taxed at the parent's tax rate if the child is under age 19 (or is a full-time student under age 24) at the end of the year.

Taxes and Foreign Investments

It is important to note that there may be special tax consequences associated with investing internationally.[6] For instance, mutual funds that hold stock in foreign companies have unique tax implications. Both global and international funds may be required to withhold taxes on income distributed to foreign shareholders. In these circumstances, U.S. investors may be entitled to a tax credit for foreign taxes withheld that can be used to offset their U.S. federal income tax obligations.

No matter what your age or investment objective, keeping the tax implications of your investment decisions in mind should be an integral part of your lifelong investment plan. Contact your financial professional before deciding on any tax-advantaged investment strategy.

This article offers only an outline; it is not a definitive guide to all possible consequences and implications of any specific tax strategy. For this reason, be sure to seek advice from knowledgeable tax and/or financial professionals.

[1]*Investing in stocks involves risks, including loss of principal. Municipal bonds are subject to availability and change in price. They are also subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise.*

[2]*Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax free, but other state and local taxes may apply. Any capital gains are taxable for federal and, in some cases, state purposes.*

[3]*Investing in mutual funds involve risk, including loss of principal. Mutual funds are offered and sold by prospectus only. You should carefully consider the investment objectives, risks, expenses, and charges of the investment company before you invest. For more complete information about any mutual fund, including risks, charges, and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.*

[4]Standard & Poor's Composite Index of 500 Stocks is an unmanaged index that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

[5]These amounts are adjusted for inflation periodically in $1,000 increments.

[6]Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.