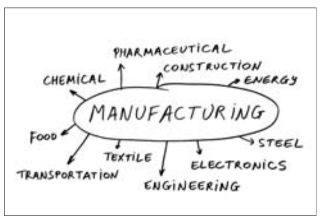
Capital Financial Planners, LLC

Judith H. Heltzel, MBA, CFP® • Barrigan W. Nelson, CFP®
503-585-1067 • advisors@capfina.com

Summer 2012

Manufacturing Is On Its Way Back To America

A combination of new technologies, low natural-gas prices, and the promise of a third industrial revolution are fueling hopes that the U.S. economy may emerge stronger than ever from the worst recession since the 1930s. Among the evidence that this revival already has begun are steady increases in the monthly Purchasing Managers Index (PMI), which has been improving month to month since late 2011. Prior to a slight dip, the manufacturing sector recorded its 33rd consecutive monthly expansion in April 2012, and the U.S. economy grew for the 35th month in a row.



Much of the recent good news for manufacturing, largely overlooked amid worries about other economic indicators and fallout from the ongoing sovereign debt crisis in Europe, can be traced to new technologies that are making it possible to drill oil and natural gas from shale rock formations. Petroleum geologists used to write off shale as a resource because there was no way to gain access to the oil and natural gas trapped in the formations. Now, technologies such as horizontal drilling and hydraulic fracturing (or fracking) have made it possible to extract oil and gas from these resources. This has caused a glut in natural gas supplies, which in turn has reduced prices to their lowest levels in 10 years.

These developments are having a snowball effect in the larger economy. Natural gas is used to generate much of the nation's electricity, so the decline in natural gas prices is trimming consumer bills for electricity as well as for heating. And the boom in oil and gas exploration is creating jobs not only for drilling companies but also for energy supply companies, the steel and plastics industries (heavy users of oil and natural gas), the paper industry, and the broader services industry. With more oil being produced in the U.S., the country also is less dependent on foreign sources.

Other new technologies have reduced labor costs for U.S. manufacturers in the transport, computer, fabricated metals, and machinery industries, all of which had outsourced much of their work to China. Now, with labor expenses dropping as a percentage of overall costs, U.S. companies are bringing jobs back home, gradually reversing the trend that had moved so many manufacturing facilities overseas. Being able to locate manufacturing plants near U.S.-based product designers also helps companies cater to increasing consumer demand for customization.

A U.S. manufacturing boom will have a significant impact on economic recovery. During the past five years, the boost in energy production alone has created 158,500 new jobs, and according to a recent Boston Consulting Group estimate, U.S. manufacturing output could be increasing at an annual rate of

(Continued on page 4)

The Dog Days Of Summer Have Arrived

The investment climate continues to be volatile, and the political and economic situation shows no immediate prospect of aiding investment returns.

It seems a good time to repeat our standard refrain of diversity and asset allocation appropriate for the investment goals of each of our clients. This has proved to be a happy refrain before, and we hope it will be the same again.

We are ever watchful for opportunities and changes in the investment arena that could be beneficial to our clients.

Remember, we think of ourselves as team players with our clients. This means that each client has the responsibility of keeping us informed of his or her personal financial situation and needs. We then can incorporate this information into our investment recommendations and financial planning in order to keep you up to date.

Each client is unique, and so is each portfolio and plan.

We wish you and yours a pleasant summer. While each of us at the office will have some away time, there always will be someone here to take your calls and address any questions or concerns you may have.

We're thankful for the wonderful clients with whom we work, for the new clients who have recently joined us, and for your confidence and referrals.

Judy

Entrees For The "Sandwich Generation"

Bob and Marcy Tannenbaum both have hectic lifestyles. Bob, who is 45, works in the city for a public relations firm. He commutes from the suburbs each day. Marcy, who is employed closer to home, is the director of a nonprofit organization. She'll turn 43 before the end of the year. They're making ends meet, but haven't set aside nearly as much as they'd like for their future needs.

The couple's three children are 15, 12, and eight. Getting them to soccer practices, dance recitals, and religious-education sessions keeps their parents hopping—especially Marcy, who bears the brunt of the carpooling.

As if things weren't complicated enough, Bob received a panicky phone call last week from his mother. Bob's 70-year-old father had been hospitalized after taking a spill. His mother wanted Bob to come "home" immediately, but "home" is 1,000 miles away. And he can't just leave his family and job behind—not to mention the economic ramifications if he did.

This kind of scenario is all too familiar to those stuck in the middle of helping elderly parents and raising their own children. These people have come to be known collectively as the "sandwich generation." And if you're not careful in these situations, the challenges can swallow you.

Nevertheless, you may be able to minimize potential problems with advance planning. Consider these four basic steps:

1. Get all the facts. Job one is to avoid unpleasant surprises. Talk to your parents about their financial situation and their plans if they become ill or incapacitated. At the same time, examine your own finances. If you haven't already done so, figure out how much you'll need to save for retirement and college for the kids. What will you have left for emergencies?

2. Seek "the power." In case of a dire emergency, you'll have to act fast on behalf of your parents. The best approach is to have a durable power of attorney in place. This allows you to make decisions regarding their financial considerations. For more protection, supplement a power of attorney with a health-care proxy and a living will relating to medical decisions.

3. Face up to long-term needs. The cost of an extended stay at an assisted-living facility or nursing home can be a financial back-breaker for families. Check to see what coverage, if any, your parents would receive from long-term care insurance. If they don't have policies, examine your options. Of course, the longer someone waits to buy such a policy, the more it will cost per year.

4. Don't forget about yourself. As much as you want to help your parents, you can't ignore your own needs. It usually doesn't make sense to erode a college savings or retirement fund to support your parents. Stick to your priorities and develop a plan that incorporates all of these factors. ●

How To Invest In Your Fixed-Income Years

How should you invest your money for retirement? Or what's the best course if you're already retired and living on a fixed income? While the same answers won't work for everyone, following certain investment principles may help you sustain a comfortable, secure life after work.

During retirement, generating income is crucial, and it may make sense during these "fixed-income years" to have a portion of your assets in bonds, dividend-paying stocks, certificates of deposit (CDs), annuities, and other investments that deliver predictable payments to replace the salary you no longer receive. Yet you also need to stay ahead of inflation, and so most retirees invest a portion of their portfolios in commodities and real estate, which tend to increase in value when consumer prices rise. The mix you choose depends on how old you are, how much you've saved, how much risk you can tolerate, and other factors, including the state of the economy. You should reassess your circumstances periodically and make adjustments if things have changed.

Use this quiz to see how attuned you are to a few of the finer points of retirement investing. If you have questions about the answers or would like to discuss your own strategies, please give us a call.

1) Which of these investment strategies makes sense when inflation is on the rise?

a) Invest in bonds that all mature at the same time.
b) Invest in commodities.
c) Sell gold.
d) Sell Treasury Inflation-Protected Securities (TIPs).

2) Which of these may help if the economy falls into a deflationary spiral?

a) Invest in long-term Treasury bonds and bond funds.
b) Invest in high-yield bond funds.
c) Sell long-term CDs.
d) Sell stocks.

Reap What You Sow: Harvesting Stock Losses

As the year progresses, thoughts of investors inevitably turn to taxes. Of course, in most cases investment factors will have more to do with the decisions you make than taxes will, but some of your investment moves indeed may be designed to improve your tax situation. After all, how much you pocket after taxes, not how much you earn from securities transactions, counts the most.

It's probably a matter of routine for you to try to "harvest" capital losses, especially as the year winds down, to offset capital gains from stock sales realized earlier in the year. By and large, that still makes sense. But this year, the likelihood that tax rates soon will increase across the board adds another wrinkle that could make it important to fine-tune your tax-related investment strategies.

First, let's look at the basics. For federal income-tax purposes, capital gains and losses are "netted" under the following rules at tax-return time: First, long-term gains and losses are separated from short-term gains and losses. A capital gain or loss is long term if you've held a security for more than one year before you sell it. For example, if you acquired stock on December 1, 2011, and you sell it at a profit on November 30, 2012, your gain is treated as a short term. But if you hold the stock just two days longer—until at least December 2—you qualify for long-term capital-gain treatment.

Then you place all of your long-term gains and long-term losses in one basket. This gives you either a net long-term gain or a net long-term loss. Next, you place your short-term gains and short-term losses in another basket—and end up with either a net short-term gain or a net short-term loss. Finally, you combine the net long-term gain or loss with the net short-term gain or loss to arrive at an overall net capital gain or loss.

If your capital gains exceed your losses, the maximum tax rate on any net long-term gain in 2012 is 15% for someone in a regular tax bracket of 25% or higher (0% for investors in the lower regular tax brackets). Conversely, if your capital losses exceed your gains, the net loss can be used to offset up to $3,000 of highly taxed ordinary income, such as your salary. If your loss is more than $3,000, you can carry the excess to future years. (Keep in mind, though, that under the "wash sale rule," you can't deduct a capital loss if you reacquire substantially identical securities within 30 days of a sale.)

Those are the basic ground rules and they haven't changed. However, the usual tax harvesting of capital losses is complicated this year due to three pending federal tax law changes:

1. The maximum tax rate for net long-term capital gain is scheduled to increase to 20% in 2013 (10% for investors in the lower regular income brackets). Thus, there's a powerful tax incentive to realize capital gains this year.

2. The ordinary income-tax rates also are scheduled to go up in 2013. The current top tax rates of 33% and 35% will be bumped up to 36% and 39.6%, respectively, and rates for lower brackets also will increase.

3. Beginning in 2013, an additional 3.8% Medicare surtax will apply to the lesser of your net investment income for the year or the amount by which your modified adjusted gross income (MAGI) exceeds $250,000 ($200,000 for single filers).

These tax increases are, of course, subject to change if Congress acts. However, as things stand now, a high-income investor could be looking at an effective tax rate of 23.8% percent on long-term capital gains. And the tax rate for short-term gains could be as high as 43.4%!

Knowing what's ahead, you may be able to devise investment strategies that maximize the potential tax benefits of the situation. For instance, if it makes sense from an investment point of view, you may want to harvest tax losses soon enough to have them qualify as short term—so that they offset short-term rather than long-term gains. That way, you won't negate any of the preferential tax treatment of long-term gains.

On the flip side, if you're in a position to take capital gains, you should realize short-term gains to offset long-term losses. Once again, you don't want to waste the benefit of paying a maximum tax rate of only 15% on your long-term gains this year. Unlike in most other years, you might emphasize harvesting gains instead of losses in 2012.

Naturally, these investment moves can't be made in a vacuum. But this should give you considerable food for thought. The best approach is to develop a logical plan, with our assistance. ●

3) As you near retirement, which of these factors becomes least crucial?
- a) Asset allocation
- b) Risk tolerance
- c) Your timetable for tapping your nest egg
- d) High-yield opportunities

4) Which of the following is generally not considered a reliable fixed-income investment?
- a) Bonds
- b) Fixed annuities
- c) Preferred shares of stock
- d) Gold and silver

5) If you sell a bond whose credit quality has been downgraded, which is most likely to happen?
- a) The market price will be higher than the price you paid.
- b) The market price will be lower.
- c) The market price will be the same.
- d) The market price will be fluctuating wildly.

6) Buying and holding bonds with a range of maturity dates is a strategy often known as:
- a) Barbelling
- b) Bulleting
- c) Laddering
- d) Asset allocation

7) The maximum age for investing in a Roth IRA for retirement is:
- a) 59½
- b) 65
- c) 70½
- d) There is no age limit.

Answers: 1-b; 2-a; 3-d; 4-d; 5-b; 6-c; 7-d

Back To America

(Continued from page 1)

$22 billion to $55 billion by 2020.

Digitalization of manufacturing, lower labor costs, and cheaper access to clean energy could combine to create what some are calling a third industrial revolution. The first two, in the 19th and early 20th centuries, culminated in mass-production technologies that have remained the model for manufacturing ever since. Now, however, emerging technologies, such as 3D printing, are turning that model on its head. Today, rather than needing to raise enormous amounts of capital to build huge factories, entrepreneurs can use relatively inexpensive web-based services to cater to a variety of consumer demands. And whereas the first two industrial revolutions created individual wealth and industry titans, the third should benefit a much broader spectrum of society.

New technologies will help create jobs in the private sector while they also help revitalize industries that suffered during what has been dubbed the Great Recession. For example, the new oil- and gas-drilling capabilities are drawing workers to areas where housing is in short supply. That, in turn, is a boon for the prefabricated housing industry, and it's enabling companies in that and other industries to rehire workers they were forced to let go during the recession.

Digital technology is beginning to blur the lines between the manufacturing and services sectors. And as it continues to draw jobs back to the United States, it could provide enormous economic stimulus, stabilizing the recovery. As independent economist Fritz Meyer notes, even in the face of competition from China and other emerging economic powers, the United States has remained the world's largest manufacturer. This growing resurgence will only increase U.S. dominance and help sustain economic expansion despite temporary disappointments. ●

Capital Financial Planners, LLC

1640 Liberty St. SE
Salem, OR 97302
503-585-1067
advisors@capfina.com