JMG Private Wealth Managers

JMG

Vantage Point *October 2013*

Market Observations

JMG Investment Committee

- The dominant investment theme remains the U.S. Federal Reserve's decisions impacting interest rates.
- The S&P 500 continued to perform well in the quarter, up +5.2%, but developed international and emerging market equities did even better, rising +11.6% and +5.9%, respectively.
- Europe may have moved out of recession, but there are many issues yet to be resolved.
- We continue to recommend global diversification because each asset class has a strategic purpose: to increase total return and/or to manage risks inherent in other asset classes.

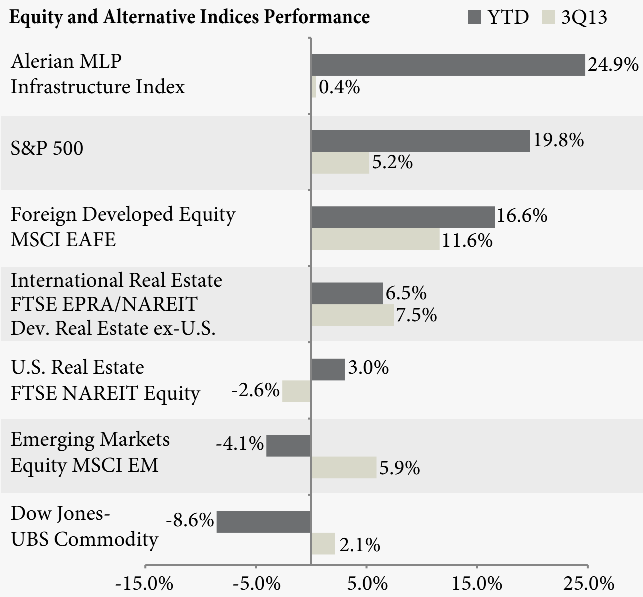
3rd Quarter Recap: The S&P 500 rose +5.2% for the quarter bringing the year-to-date total return to +19.8%. U.S. small and mid-cap stocks outperformed large cap stocks for the quarter, advancing +7.7% and +10.2%, respectively. Growth stocks have outperformed value stocks.

International equities also had strong performance, especially from the United Kingdom, Germany, France and Japan. Emerging markets may have rebounded in part due to the strong connection of capital flows based on Fed policy.

U.S. interest rates did not change significantly during the quarter. There was, however, intra-quarter volatility as investors anticipated, but were surprised by the Fed's tapering decision. Ten-year U.S. Treasury yields increased from 2.52% to 2.64% during the quarter, but were as high as 2.98% on September 5th.

Energy infrastructure MLPs were slightly positive for the quarter, up +24.9% year-to-date. Commodities recovered, up +2.1% in the quarter, but are still down -8.6% on the year.

Equity and Alternative Indices Performance



Source: Bloomberg, Russell

3rd Quarter Market Analysis Investors are worried about the effects of the Fed reversing its unconventional monetary policies. Ben Bernanke, whose second term as Chairman will end on January 31, 2014, surprised investors on September 18th with the announcement that the Fed would not immediately curtail its bond buying program known as QE3. Tapering may be announced in December before Bernanke's term expires.

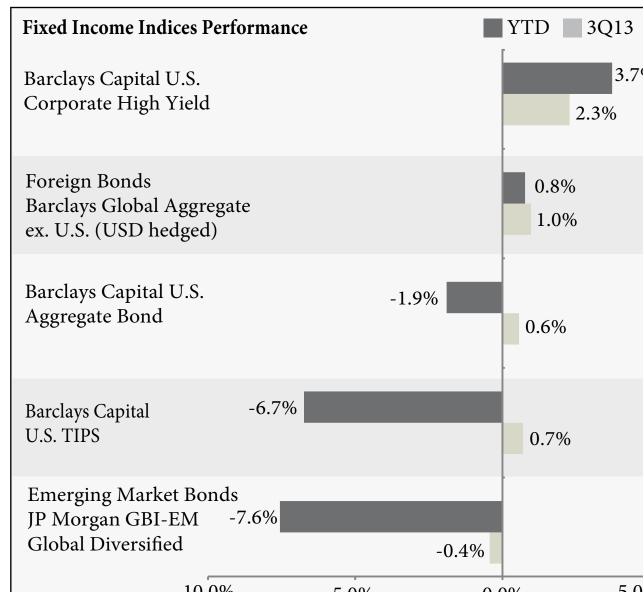
The message was the U.S. economy is still weak and needs support. Bernanke noted that progress is being made for the U.S. economy and labor market conditions are improving. The Fed is trying to hold interest rates down to encourage lending activity and capital investment, thereby injecting more cash into the economy.

Bernanke said that the Fed decided to make no changes in its QE3 asset purchase program to allow more time to assess whether economic progress can be sustained.

A second theme is the significant outperformance of U.S. stocks relative to other asset classes. Companies have had strong earnings and there are indications earnings could have future upside surprises. Interest rates and inflation remain low and corporate balance sheets have improved from five years ago.

Another theme is the economic progress being made in Europe. However, there are many issues yet to resolve in the Eurozone as growth may remain below 1% for a while. Unemployment remains a significant concern in the European Union (EU) with an August rate of 10.9%. However, unemployment rates are higher in the southern EU countries while the northern EU countries have better employment metrics.

Fixed Income Indices Performance



Source: Barclays Capital, Bloomberg, J.P. Morgan Asset Management

Our View: In the past five years, the U.S. has moved ahead from a time of bailouts, dangerous business practices and the prospects of a global financial meltdown centered in the U.S. Reflecting on that period, it is interesting to note the S&P 500 is up 174% from its low in March 2009 and up 22% from its previous high in October 2007. There are prospects for U.S. energy independence and the U.S. might actually be in a new industrial revolution with S&P 500 operating earnings reaching all-time high levels.

U.S. stocks have been significantly outperforming other asset classes. Bonds have experienced negative performance with increases in interest rates and several other asset classes have had low or negative returns. Therefore, globally diversified portfolios are underperforming portfolios composed exclusively of U.S. stocks.

One might ask why we continue to recommend investments in other asset classes such as bonds, real estate, international equities, emerging markets and commodities. The answer is each asset class in the portfolio is there for a reason: to increase total return and/or to manage risks inherent in other asset classes. We believe this leads to improved risk-adjusted returns and gives an investor a better chance of their portfolio meeting their return needs. We recommend broad diversification because we cannot precisely time which asset classes will be in or out of favor. Market regime shifts often occur too quickly.

The asset class performance this year looks similar to that of 1998. At that time, U.S. stocks were significantly outperforming emerging equities, REITs and commodities. Investors were rotating toward U.S. stocks and it seemed like U.S. stock performance would just continue to surge ahead. Eventually in 2000 to 2002, the U.S. stock market stepped back and other asset classes came into favor. Commodities, for example, gained +25% in 2002 when the S&P 500 was down -22%.

We are not comfortable recommending portfolio moves to higher equity risk. Bonds are in portfolios to hedge equity risk and provide portfolio protection against unforeseen geopolitical events. As interest rates increase, the principal value of bonds drops. In the long run, however, interest reinvested at higher rates benefits investors, so long as they stay invested. We do not advocate that bonds be shed from portfolios.

We continue to be concerned about inflation, but for now it appears to be in check. In our view, it is a mistake to exclude inflation hedge asset classes such as TIPS, commodities and energy infrastructure MLPs from portfolios. Inflation has an ugly attribute of quick surprise. Diversified portfolios should include components to hedge this risk.

Contact a JMG Advisor if you wish to be sent the full version of our commentary.

2013 Client Appreciation Event

On August 19th, JMG hosted a Client Appreciation event at Sunset Ridge Country Club in Northfield. The weather was picture perfect for those who were able to enjoy 18 holes on the golf course. The day concluded with a buffet dinner that was attended by over 150 guests. It was a great day for everyone who was able to attend.

Clients enjoyed a great buffet

From left to right: Don King, Steve Medwed, Chris Nicholson, Jaclyn Garcia and Michelle Rozsypal

Dennis Marx, JMG's lead host

David Morgan and Bill Waight.

From left to right: Justin Lesch, Marita Sullivan and Yonhee Gordon

Did You Know That...

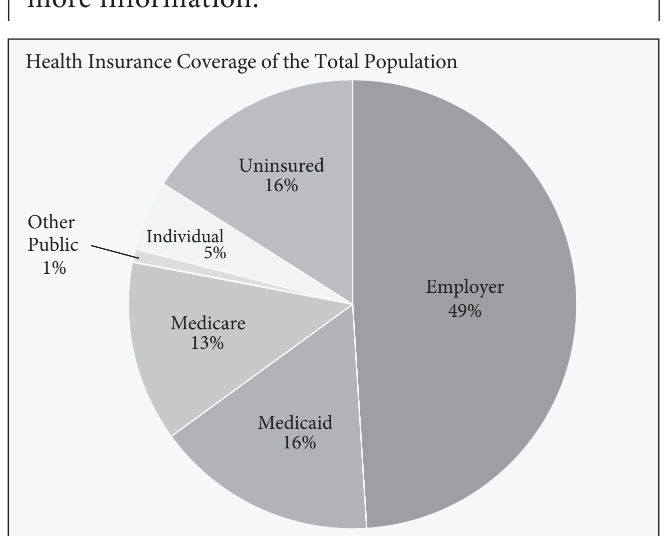
Darren Sardiga, CFP®, CPA
JMG Advisor

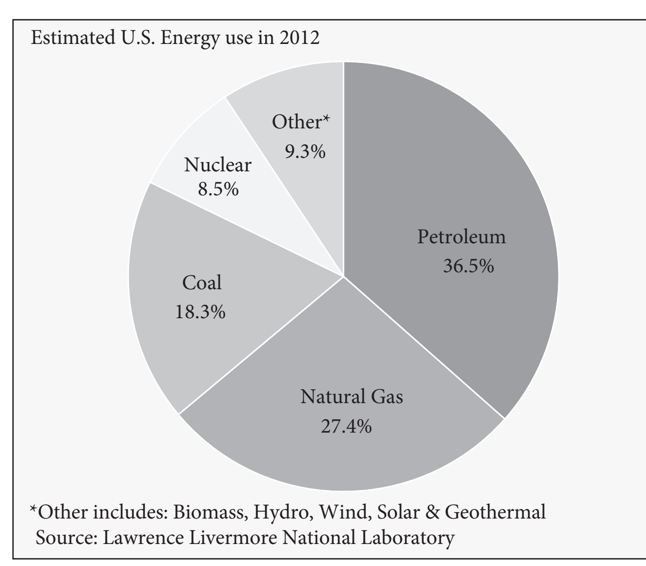
Social Security trustees estimate that 77% of scheduled benefits could still be paid after the trust fund is expected to run dry in 2033 based upon estimates of incoming tax revenue. Potential fixes include an immediate payroll tax of 1.33% for both workers and employers, which is projected to restore the program to solvency for 75 years until 2088. Other solutions include an immediate 16.5% cut in benefits for all current and future beneficiaries or a 19.8% reduction in benefits for everyone who becomes eligible for benefits in 2013 or later.

About 15% of U.S. citizens (46.5 million) lived at or below the poverty line of $23,492 for a family of four ($11,490 single) in 2012 according to a report from the U.S. Census Bureau. This is 2.5% higher than 2007, just before the recession. Median household income in 2012 was $51,017. This is 8.7% lower than it was in 2007 and nowhere near the $56,080 inflation adjusted average in 1999. The report highlights statistics of how the middle class and poor are still struggling in this recovery.

30% of Americans age 65-69 are still employed, trailing only Korea (42.5%) and Japan (37%) while far outpacing the European Union (8.7% average) according to the Center of Budget and Policy Priorities. Low wage growth, stunted savings and greater longevity are some issues workers face, but the primary driver appears to be the American culture of overworking.

47 million nonelderly Americans were uninsured in 2012 according to the Kaiser Foundation. Americans that fail to obtain health insurance coverage by March 31, 2014 may face a financial penalty under the Affordable Care Act (ObamaCare). The uninsured, as well as people with private insurance or employers with less than 50 employees, may use the new Health Insurance Marketplaces to comparison shop for policies. Illinois has six insurers participating in the program offering 162 policy options. The Kaiser Family Foundation is a good resource to obtain more information.





The U.S. rises to the #1 energy producer in the world, surpassing Russia, according to a Wall Street Journal analysis of world data from the U.S. Energy Information Administration. The U.S. produced the equivalent of 22 million barrels a day of oil, natural gas and related fuels in July. U.S. imports of natural gas and crude oil have fallen 32% and 15%, respectively, in the past five years. It was estimated that the U.S. met 87% of its own energy needs in the first 5 months of 2013.

U.S. schools continue to dominate the list of the top universities in the world despite the quality of U.S. primary education (pre-college) falling significantly in world rankings. The U.S. is home to 19 out of the top 25 schools according to the Shanghai Ranking and 15 out of 25 according to the Times Higher Education World University Rankings. U.S. schools are even more prominent in the areas of engineering and technology. This bodes well for the U.S. economy in a world where technology is growing in importance.

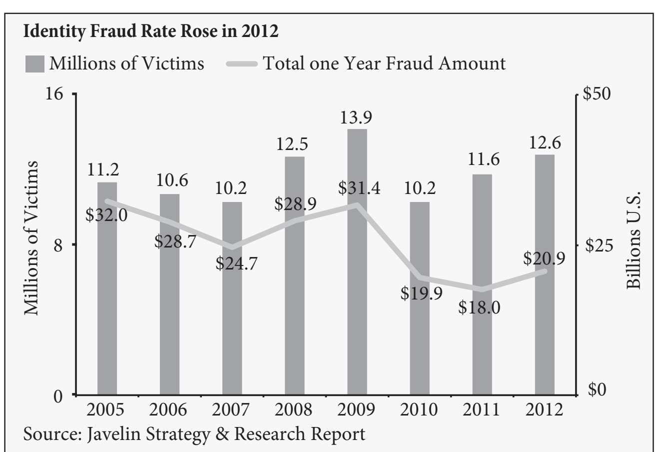
JMG Advisor Perspective

Identity Theft Awareness and Prevention

William R. German, CFP®
JMG Advisor

Identity theft and identity fraud are terms used to refer to crimes in which someone illicitly obtains and uses another person's personal information in a way that involves fraud or deception, usually for economic gain. There were 12.6 million victims in 2012 with $20.9 billion stolen. This amounts to one victim every 3 seconds.

Most Common Ways Identity Theft or Fraud is Committed In public places, criminals may watch or listen from a nearby location as you provide a credit card number to a third party. Additionally, criminals may retrieve preapproved credit card letters or other mail from your mailbox that may include personal information. The increased use of technology for personal financial management and recordkeeping coupled with increased technological sophistication of fraudsters has led to the internet becoming an appealing place for criminals to stalk for identifying data via phishing scams and spam email.



How to Avoid Becoming a Victim There are some basic steps you can take to minimize the risk of becoming a victim of identity theft or fraud. The Department of Justice suggests to just remember the word **"SCAM"**:

S Stinginess about providing your personal information to others unless you have a reason to trust them. Adopt a "need to know" approach to your personal data. Additionally, do not carry anything with your Social Security number on it, do not open email attachments from unreliable sources and use caution when using a public computer.

C Check your financial information regularly and review monthly bank and credit card account transactions. Identity theft and credit protection services or monitoring activity on software such as Quicken or Mint.com on a consolidated basis serve as good prevention.

The IRS identified 641,690 incidents of tax fraud involving identity theft in 2012, a three times increase from 2011.

A Ask periodically for a copy of your credit report. Individuals are entitled to a free copy of their credit report from one of the three reporting agencies every year. The credit reports can be obtained at annualcreditreport.com. A regular review of your credit report will allow fraudulent activity or mistakes to be caught more quickly and provide for a greater chance of getting them resolved.

M Maintain careful record of your banking and financial accounts. Consider enrolling in paperless billing for credit cards, utilities, banks, etc. and obtain this information through a secure online site. Shred any mail or documents that contain personal information. Also, protect your personal computer by using firewalls, anti-virus software, update security patches and periodically change passwords for internet accounts. Additionally, maintain photocopies of driver's license, passport, social security card and credit cards, securing the copies along with any important legal documents in a safe.

Hostile Email Takeover An emerging trend is the hostile takeover of email accounts. After the unauthorized user gains access to the account, the fraudster may send an email to family and friends highlighting an immediate need for cash to be transferred to a third party account. Additionally, the criminal may find the financial advisor's contact information and request third party wired funds using similar email composition patterns as the individual. JMG has increased awareness to this issue and may require phone call verification with a client to confirm a cash transfer.

Filing of Fraudulent Tax Returns Tax fraud through the use of identity theft tops this year's list of "Dirty Dozen" tax scams by the IRS. Under this scam, a thief may create a fraudulent W-2 and file a tax return requesting the income tax withholding to be directed to a third party bank account. A taxpayer will not likely be aware of this identity theft until they receive a letter from the IRS stating there is a problem requiring an explanation.

Medical Identify Theft This occurs when someone steals your personal information to obtain medical care, buy drugs, or submit fake billings to insurance companies in your name. The damage can be life-threatening to you if inaccurate information ends up in your personal medical records. A study by Ponemon estimates that nearly 2 million Americans annually become victims of this crime and will spend more than $12 billion in out of pocket expenses in 2013 to deal with the consequences of compromised medical or insurance files. This crime is up 20% within the last year.

With the increased use of technology and the constantly changing identity theft landscape, it is more important than ever to minimize the risks of becoming a victim. Consult with your JMG Advisor to discuss suggestions for protecting your financial identity or the actions to take if your financial identity becomes compromised.

Bill German
JMG Advisor

Bill has been with JMG since 2003.

Second Look

U.S. Budget Deficit Shrinks as Revenues Rise, Jeffrey Sparshott, The Wall Street Journal, www.wsj.com, August 12, 2013 – Higher tax rates and slow, but steady U.S. economic growth has narrowed the budget deficit. The deficit for the most recent fiscal year is estimated to be $607 billion, down from $1.087 trillion in the previous fiscal year.

JMG Vantage Point – In the short-term, the economy is breathing easier, but the longer-term picture is still uncertain. No progress is being made to resolve the U.S. debt and unfunded liabilities such as Medicare. Costs from implementation of the Affordable Care Act are rising. Assuming Congress once again defers work on the most critical issues, we do not expect market shocks and believe that stocks and other risk-assets will remain attractive to investors.

Ben Bernanke's Global Adventure, Review & Outlook Asia, The Wall Street Journal, www.wsj.com, August 22, 2013 – Emerging markets sold-off in August with the prospect of quantitative easing (QE) tapering by the Federal Reserve. As economic activity in the U.S. improves and interest rates rise, more investors are bringing their capital back to the U.S. and out of emerging market countries.

JMG Vantage Point – The degree that emerging markets sold off ahead of an official QE tapering announcement was a surprise. Improving U.S. economic news can be positive to emerging market countries that rely on exports to the U.S. Also, growth in emerging market countries is still projected to be greater than the U.S. The problem is investor capital is no longer flowing to emerging markets as in recent years. It is now more likely the Fed will begin QE tapering in December and destabilizing capital outflows from emerging markets will require monitoring.

False Internet Rumors About "Real Estate Transaction Tax" Worry Taxpayers, Jack Hagel & Alistair M. Nevius, J.D., The Journal of Accountancy, www.journalofaccountancy.com, July 30, 2012 – The 3.8% Medicare tax on unearned income is effective in 2013 and may apply to capital gains on real estate transactions. The tax is not based on the gross sales price of the real estate transaction, but only the capital gain. Exemptions from tax may apply to sales of primary residences.

JMG Vantage Point – As we have noted in previous editions of Vantage Point, the 3.8% Medicare tax on unearned income applies to single and married taxpayers with modified adjusted gross income above $200,000 and $250,000, respectively. Only gains on the sale of a principal residence in excess of $250,000 ($500,000 for joint filers) are used in the calculation of the 3.8% tax. A married couple would therefore need to realize a capital gain in excess of $500,000 upon the sale of their home AND have income in excess of $250,000 in order to be subject to the 3.8% additional tax.

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In The News

InvestmentNews announced JMG as a winner of the first annual Best Practices Award in the category of Human Capital Management. The winners were identified by their participation and performance in two major industry studies related to compensation, staffing and technology. JMG was one of twelve firms selected in this category out of 400+ participating firms.

30 Ways to Make a Difference

JMG employees have been busy implementing our service campaign called "30 Ways to Make a Difference" which we launched this summer to coincide with our 30th Anniversary in 2014.

Volunteering at the Green Tie Ball to benefit Chicago Gateway Green

Creating masks for a children's event at the West Suburban Humane Society

Filling backpacks with school supplies to benefit low income families for Catholic Charities

Painting at The DuPage Children's Museum

Volunteering at the Juvenile Diabetes Research Foundation walks in Chicago and Schaumburg.

Anthony D. Cecchini was appointed to JMG's Executive Committee. In addition to being a Principal and managing client relationships, he also serves as Chief Compliance Officer. Anthony has been with JMG since 1997.

Yonhee C. Gordon was named Chief Operating Officer at JMG. She is also a Principal and member of the Executive Committee. Prior to her management role, she also managed client relationships. Yonhee has been with JMG since 1986.

We welcome your questions, comments or suggestions at ***Newsletter@jmgfin.com.***