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An economic and investment update

THE FINANCIAL INSIDER

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Appraising Your Appraiser

An appraiser assigns value to your property and potentially minimizes your exposure to certain risks, such as tax penalties. An inaccurate appraisal could hinder your ability to receive a fair price for property, increase the likelihood of a tax audit, or result in an inequitable division of property or inappropriate insurance coverage. Your financial decisions may depend on your appraiser's research, analysis, and reporting.

Hiring an Appraiser

Choosing a qualified professional involves time and preparation. Because appraisers tend to specialize in certain areas, such as antiques, coins, stamps, jewelry, silver, and so forth, you want to find someone with relevant expertise and a proven track record. For a referral, contact the following professional organizations:

International Society of Appraisers (ISA)
www.isa-appraisers.org
1-312-981-6778

Appraisers Association of America (AAA)
www.appraisersassoc.org
212-889-5404

American Society of Appraisers (ASA)
www.appraisers.org
1-800-272-8258

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Understanding Economic Forecasting

When weather forecasts are inaccurate, we can usually change our plans with little consequence in the greater scheme of things. When economic forecasts are inaccurate, however, the consequences may be more significant. While making financial decisions does involve some guesswork, an educated guess—even with elements of uncertainty—may be better than making a decision with no forecast at all.

Unfortunately, economic forecasting, like weather forecasting, is far from an exact science. Even professional economists may strongly disagree on the direction of the economy at any given point in time, based on their interpretations of conflicting economic indicators. Although many factors are pivotal in assessing the economy, let's focus on two key points that may help you better understand where our economy currently stands, and where it may be headed in the near future.

Consumer Spending

Economic forecasters are always searching for storm clouds that might signal an economic downturn. Since consumer spending has historically accounted for about two-thirds of the economy, according to the U.S. Bureau of Economic Analysis (BEA, 2013), many observers have looked to "pocketbook" issues in search of primary clues about the direction of the economy.

Consumer cutbacks on spending are not usually the primary cause of a recession. Rather, consumers may buy more on credit, which leads to greater monthly payments. But at some point, consumers can spend only what their incomes will allow. When consumer debt rises, it becomes particularly important because of the impact of total consumer spending on our economy. It may also be helpful to

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Appraising Your Appraiser

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Other resources include libraries, museums, auction houses, and the Internet, as well as recommendations from friends and colleagues. Once you find someone with the necessary experience, conduct an interview to ensure his or her appraisal practices meet your standards, as well as the accepted standards in the field. Consider asking the following questions:

1. What are your work experience and education qualifications? Ask for references and review the candidate's résumé or curriculum vitae, making note of work history, both formal and continued education, and membership in professional organizations. Some professional organizations require that members pass examinations and comply with a code of ethics. Valuation should be based on standard appraisal principles and procedures acquired through formal training. Authenticating an item is just one aspect of the appraisal process.

2. What is your area of expertise? Make sure your candidate's expertise matches your needs. However, finding one person who is an expert in *all* areas may be difficult. The International Society of Appraisers recognizes over 220 areas of specialization. For items that exceed an appraiser's expertise, ask if the appraiser would be willing to consult with other qualified professionals.

3. How much will the appraisal cost? Appraisers may charge per hour, per diem, per item, or a flat rate. Other charges may include reimbursement for additional expenses, including travel and photographs. Consider avoiding any proposal that includes a "contingency fee" based on a sale or a fee that is based on a percentage of the valuation. Generally considered unethical, these types of appraisals could have tax consequences for you; the Internal Revenue Service (IRS) rejects all appraisals performed under these conditions.

4. How do you report your findings? An appraiser typically prepares a signed, written report that documents the valuation of an item, including his or her evaluation methodologies and credentials.

The Written Report

Keep in mind that at some point attorneys, judges, the IRS, estate executors, insurers, and trustees may grant decisions based on your appraisal. Therefore, it should be comprehensive and professionally prepared. The following key elements are usually included in an appraisal report:

Statement of purpose. As discussed earlier, an appraisal has a variety of uses, which may include helping you assess your insurance needs or substantiate a tax deduction. The purpose of your appraisal and its expected use should be clearly noted.

Description of property. This includes a physical description that details such features as the size, weight, color, age, material composition, origin, and condition of the appraised item, as well as the method of acquisition (often helpful for tax purposes). The appraiser also attests to an item's authenticity and notes the date it was viewed.

Statement of disinterest. The appraiser should verify that no conflict of interest exists. If the report has been prepared for tax purposes, the appraiser must provide a tax identification number and also disclose if the IRS has ever disqualified him or her. The appraiser also needs to include an explanation of the applicable fee structure.

Method of valuation. An explanation of valuation methodology offers a basis for the appraiser's conclusion. In general, appraisers make assessments based on such factors as replacement value, fair market value (FMV), or comparable sales. For example, an appraiser who is determining the value of a work of art may consider the prices of similar works of art. The appraiser often includes a market analysis that references historical performance and may also project future value.

Provenance. In some instances, particularly with artwork, a history of ownership may be included. Further documentation, if applicable, might chronicle noteworthy exhibitions or publications.

Statement of value. The report should clearly state a dollar amount representing the valuation of the appraised item, and it should be signed and dated by the appraiser. It is also standard practice for the appraiser to include his or her credentials, either with a résumé or curriculum vitae.

Stay Current

In order to keep pace with the potential for changing market values, consider reviewing an appraisal every three years. As your financial strategies change, make sure you base your decisions on the most up-to-date and accurate information regarding the value of your possessions. What you cherish as "priceless" may have a price tag that can help you plan for your financial future. $

Identity Theft and Your Taxes

Identity theft is one of the fastest growing crimes in the United States, with as many as 7% of Americans over age 16 victims in 2012, according to a bulletin from the Bureau of Justice Statistics. Identity theft is a type of fraud in which a thief uses your personal information to conduct transactions in your name. Criminals may, for example, use your identity to open or empty bank accounts, obtain credit cards, or take out loans. In addition to fraud directly concerning your finances, thieves can also use your information to commit crimes that may affect your taxes.

Types of Fraud

With your identifying information, an undocumented worker or another individual may use your Social Security number on job applications and employment paperwork. The employer would then report the thief's W-2 wages earned to the IRS using your information. As a result, when you file your tax return, it will appear to the IRS that you did not report all of your income.

An identity thief may also file a tax return using your name and Social Security number in order to obtain a refund. When you later file your return, the IRS might believe that you already filed and received a refund; therefore, the return you submitted would be considered a second copy or duplicate.

Protecting Yourself

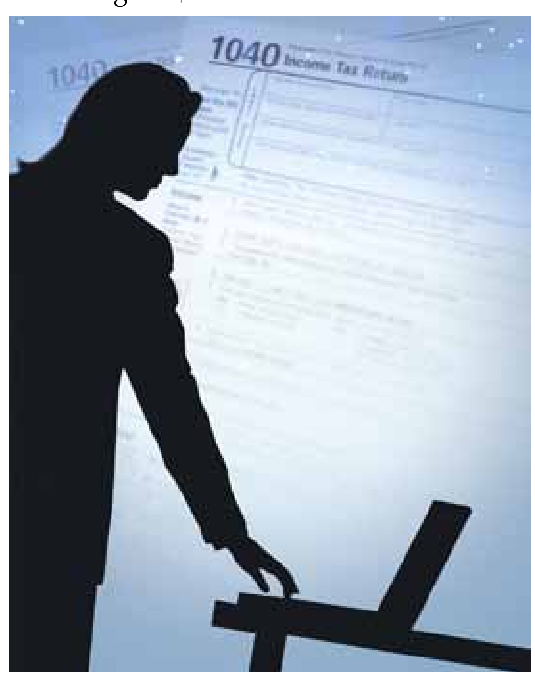
Before you become a victim of identity theft, consider these steps to help protect yourself.

- If you must give out personal information, be aware of your surroundings and do it discreetly.
- Do not give out personal details over the phone unless you have made the call yourself.
- Properly destroy any documents, receipts, or pieces of mail that contain information an identity thief might find useful, including your bank account information, Social Security number, address, and birth date.
- Avoid using your Social Security number as part of a password or pin number, or on your driver's license, unless absolutely necessary.
- Secure your personal computer using firewall programs, antivirus software, and secure browsers before revealing personal information online.

If you receive a notice from the IRS that leads you to believe that your personal information has been used to commit tax fraud, contact the IRS by phone or in writing as directed in the notice. Possible triggers indicating you may have been the victim of identity theft include statements that you received wages from an employer unknown to you or that more than one tax return was filed in your name. IRS tax examiners can work with you and other agencies, such as the Social Security Administration, to resolve these discrepancies. It is important to note that the IRS will not initiate a request by e-mail for taxpayer information in this, or any other, situation. If you do receive such a request, it may be an attempt by identity thieves to obtain your tax information.

In addition to other precautions you may take to protect your identity from thieves, the IRS recommends that you be extremely careful when choosing someone to assist you with tax preparation. Because this person will have access to your personal financial records, be sure to research his or her credentials and experience. Avoid preparers who guarantee results, base fees on a percentage of the amount of refund, or claim they obtain larger refunds than other preparers.

Identity theft can be a financially and emotionally devastating ordeal. For more information about identity theft and what to do if you become a victim, visit the FTC's website, www.ftc.gov. $



Charitable Giving Shows Signs of Returning to Prerecession Levels

In 2013, the total amount of charitable giving by U.S. individuals, corporations, foundations, and bequests approached the peak reached before the onset of the financial crisis, according to a study published by Giving USA Foundation and the Indiana University Lilly Family School of Philanthropy.

The analysis of a wide range of data, including information from Federal tax returns and surveys of charities and foundations, indicated that the total amount of charitable giving in 2013 came to $335.17 billion—an improvement of 22% since the official end of the recession in 2009, or of 12.3% when adjusted for inflation. The results also showed that 2013 was the fourth straight year of growth in contributions to nonprofits: donations in 2013 rose 4.4% (or 3% adjusted for inflation).

While pointing out that total donations in 2013 did not reach the estimated $349.50 billion (adjusted for inflation) contributed in 2007, researchers noted that there was considerable growth in 2013 in very large gifts—$80 million or more—from individuals, couples, and estates.

The report also emphasized that all types of nonprofits were not participating equally in this recent recovery in charitable contributions. For example, the findings indicated that giving to the arts, health, the environment, and education rose consistently over the past three years, after donors reduced their support for these kinds of charities during the recession and increased their contributions to nonprofits serving the poor, such as food pantries, homeless shelters, and international relief organizations.

Looking at giving in the corporate sector, the analysis showed that between 2009 and 2013, giving by businesses recovered much more rapidly than overall giving, increasing 19.4% (adjusted for inflation) over the period. The results also indicated, however, that following a sharp rise in corporate giving of 16.9% (in current dollars) from 2011 to 2012, charitable donations by businesses declined 1.9% (in current dollars) in 2013. Researchers attributed this year-on-year decline to the slow rate of growth in pretax corporate profits in 2013.

Meanwhile, the study found that giving by foundations in 2013 increased an estimated 5.7% (4.2% adjusted for inflation), and giving by bequest rose an estimated 8.7% (7.2% adjusted for inflation). According to researchers, giving by foundations has increased over the past three years (adjusted for inflation), generally reflecting asset growth and higher levels of economic confidence. $

Insurance Claims: An Inventory Is Invaluable

Try closing your eyes and listing your living room furnishings or the contents of your jewelry box. If you have trouble coming up with a complete tally, imagine how hard it would be when you are distraught after a fire or burglary.

Developing an inventory of your household valuables is the most prudent step you can take to both save your money and provide yourself peace of mind. An inventory not only guarantees the completeness of any insurance claim you submit after a burglary or a fire, it may also ensure a smoother claims process.

Your claims are less likely to be questioned when based on such inventories, especially if you submit photographs, receipts, and appraisers' statements for valuable items. You should leave a copy of your inventory of household valuables with your insurance agent or in your safe deposit box.

What are the elements of the inventory? Key components are the date you bought each item of value in your possession and the purchase price.

A graphic description of each object, including age, brand name, size, model number, and other relevant details is critical. For sterling silver tableware, note the manufacturer,

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Why a Home May Still Be Your Best Investment

While everyone's situation is different, buying a home that you plan to live in for many years may still be one of the best investments you can make. An uncertain market should not necessarily deter prospective buyers, but rather prompt them to develop a more realistic perspective on homeownership.

Instead of viewing real estate primarily as an investment vehicle for the short term, potential buyers can recognize homeownership for what it really represents: a long-term financial commitment that can provide a secure, comfortable place to live for many years.

Buying a home can provide a sense of stability because you are no longer subject to the uncertainty of the rental market. Paying a mortgage each month can be likened to a forced savings account. As the mortgage principal shrinks, you accumulate more equity in the home and, eventually, you will own the asset outright.

When you buy and live in a home, you can reap the benefits of what is known as "net imputed rent." Basically, the money you would have paid on rent contributes to the equity you accumulate over time, after maintenance and taxes. The U.S. Department of Commerce calculates this at approximately 6% per year, which is better than any savings account or CD available today.

Finally, homeowners have the opportunity to minimize their tax liability by taking a tax deduction for any mortgage interest paid for their primary residence.

Although there is no guarantee that your home will increase in value or even hold its value in the short term, it can provide a place for you and your family to live that you can continue to afford and to enjoy for many years to come.

Providing New Opportunities

Even in an unpredictable economy, the current real estate market can provide opportunities for those with good credit and the funds for a down payment. With relatively reasonable real estate prices and good mortgage rates, this may well be one of the best times to buy a home.

Experts project that the demand for housing may increase in the years ahead. Although new home construction has slowed, the U.S. Census Bureau projects that the number of American households will increase each year by 1 to 1.5 million. Eventually, demand may realign with the supply of new houses.

No one knows what's in store for today's real estate market. However, it does present opportunities for those with a long-term plan to buy a home that will provide a stable lifestyle for years to come. $

Insurance Claims: An Inventory Is Invaluable

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pattern, and number of place settings. If your possessions are extensive and of particularly high quality, consider filming them and recording your verbal descriptions of them.

If an appraiser has estimated the value of any of your possessions, you should record the figure and the appraisal date, reviewing the appraisal for precise, explicit descriptions. Highly generalized descriptions will not back up a claim.

For some property categories it is acceptable to lump together a number of articles and attach a single estimated value. This is a particularly wise approach with clothing. Unless you have closets full of designer clothes, there is no sense spending time and energy describing everything in your wardrobe.

Proper documentation is a key element of your inventory. Receipts and bills of sale should be saved with backup copies in a secure location, such as a safe deposit box.

The task may appear unnecessary and time-consuming, and you may never need your inventory records during your lifetime—and it is hoped that you won't. However, if you do, the time you spent will have incalculable value. $

Roth IRAs for Kids

It may be difficult to convince your teenagers to participate in their financial futures, but if you can persuade them to contribute at least part of their babysitting or after-school job money to a Roth Individual Retirement Account (IRA), they may thank you later.

Anyone with earned income below $129,000 for single filers and $191,000 for married joint filers in 2014 can open a Roth IRA retirement account. Contributions are nondeductible, but earnings and qualifying distributions accumulate tax free. Because children seldom make enough to owe income tax, they are usually better off with a Roth IRA than a tax-deferred traditional IRA. For 2014, your child can contribute up to $5,500 (or earned income, whichever is less) to a Roth IRA.

Saving for retirement early can generate substantial results. Suppose your 14-year-old daughter uses $1,000 to open a Roth IRA. If she makes no additional contributions and the funds grow at 8% annually, she will have more than $50,000 to withdraw tax free at age 65. Or suppose your son opens a Roth IRA with $2,000 when he is 15-years-old, and then he contributes $2,000 annually for the next 10 years. The estimated value of his tax-free fund balance at age 65 will exceed $700,000, if the annual growth rate is 8%.*

A Roth IRA offers the greatest growth potential if the account is left untouched until the holder reaches the age of 59½. At that age, the holder can withdraw earnings tax free, provided he or she has owned the account for five years. The IRS does permit penalty-free early withdrawals to pay for education or to help with a first-time home purchase. However, taxes will be owed on nonqualified early withdrawals.

Before you open a Roth IRA for your child, keep in mind that you cannot stop your child from withdrawing money from the account whenever he or she wants after reaching the age of majority, which is 18 in most states. If you are uncertain about your child's ability to handle money, opening an account in his or her name may not be the best choice.

Also, be aware that only taxable compensation income can be contributed to a Roth IRA. In general, paying your children for doing chores around the house does not qualify as compensation income, as this is an intrafamily transaction not usually reported to the IRS. However, if you own your own business, you are permitted to hire your minor children to do certain jobs. Provided you pay your children a fair market wage for the services performed, their earnings would be considered compensation income and could be invested in a Roth IRA.

It is essential to keep detailed records of how the money placed in a Roth IRA was earned, even if a teenager's working arrangements were informal (e.g., babysitting or mowing the lawn for neighbors) and he or she did not earn enough to owe income tax. Penalties could apply if the IRS determines the funds contributed to a Roth IRA were not compensation income.

The good news is that if, for example, your teenage son goes out and blows his paycheck on a new smartphone and skateboard, all is not lost. If he earned $2,500 over the summer but spent all the money, you could still contribute the amount equivalent to his taxable earnings into a Roth IRA on his behalf, thereby helping to ensure some funds have been set aside for his retirement when skateboarding days are behind him. $

These hypothetical examples are for illustrative purposes only. They are not intended to reflect an actual security's performance. Investments involve risk and may result in a profit or a loss. Seeking higher rates of return involves higher risks.

Protecting Against Loss with Business Interruption Insurance

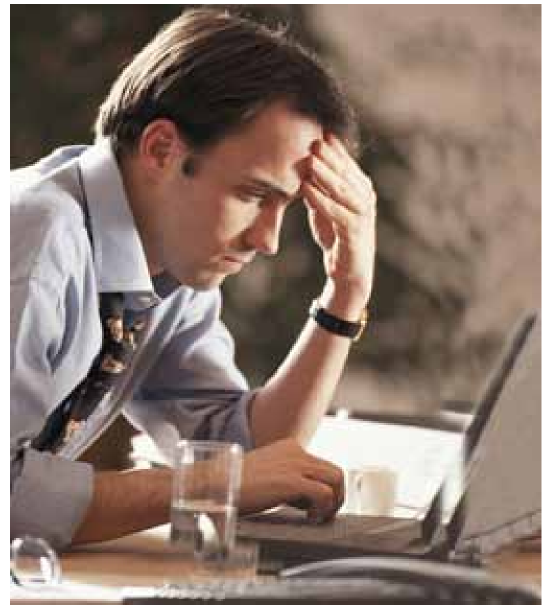
How long could you afford to be out of business? Many business owners who would never think of leaving their buildings and contents uninsured overlook how much it would cost them in lost earnings if operations were down for a period of time due to a natural or man-made disaster, or power outage. Continued business income is just as important to a "disabled" enterprise as continued wages are to a disabled individual.

Business insurance may be considered accident or disability insurance for a business, since it helps to maintain a regular flow of earnings after the business has been completely or partially shut down by disasters, including fires, tornados, and theft. **Business interruption insurance** is designed to pay for the lost net profits of the business plus any continuing expenses occurring during "down time" caused by a peril covered by the policy.

There are many different forms of business interruption insurance, and the price can vary greatly based on the level of risk and the potential cost of getting the business up and running again after a disaster strikes. While business interruption insurance is sometimes included in business owner policies (BOPs), the type and amount of coverage provided by a standard policy may be insufficient for the needs of many companies. So, a complete analysis would be necessary to determine which type of business interruption insurance is best suited to your business needs.

Most manufacturing firms require gross earnings coverage. When the value of a firm's future gross earnings is properly estimated, any noncontinuing expenses may be deducted to arrive at a figure that represents the firm's net profit plus any continuing expenses accrued had no interruption occurred. The continuation of a profit stream is therefore allowed to flow through to the firm, and can even compensate key employees who might otherwise be lured away by competitors during an enforced shutdown.

Many commercial enterprises are unable to afford a closure and must remain in operation even though property has been damaged, either because of the nature of the business or that a shutdown might result in a permanent loss of business. For example, banks, supermarkets, and health care facilities typically need to make arrangements for continued operation even if a permanent location is damaged or destroyed. Under these circumstances, **extra expense insurance** would be more



appropriate to help pay more than the normal expenses that are needed to keep the insured in business. Overtime wages for employees, extra travel, and the cost associated with substitute or makeshift facilities could be covered by extra expense insurance, which would contribute to retaining company visibility.

Consider your business interruption policy options carefully. Due to the nature of some businesses, both gross earnings coverage and extra expense insurance may be necessary to cover overlapping areas of exposure. You may be able to lower the cost of the premiums—and reduce the chances that you will have to file a claim in the first place—by taking steps to protect your firm's premises from natural disasters and crimes. You may, for example, want to consider improving the fireproofing or waterproofing of your buildings, or install a sophisticated security system.

While many plans include a 30-, 60-, or even 90-day waiting period, a review of your company's situation may reveal that an extended waiting period would cause serious damage to your business. Remember that if the firm were forced to shut down temporarily, your company's earnings could continue to suffer even after reopening. Be sure to review your business interruption policy for the provision of ongoing reimbursement for lower sales volumes after operations have resumed. The key is to complete an analysis of the specific needs of your business and then obtain the amount of business interruption coverage you need before it is required. $

Understanding Economic Forecasting

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understand the Federal decisions that lay the foundation for our overall economic climate.

The Role of the Federal Reserve Bank (the Fed)

Even the casual observer of business news knows that "Fed watching" is a serious activity in the financial and business sectors. You may be wondering, what it is that makes the Fed so important.

While consumers can affect the economy by spending according to their own situations and financial pressures, Federal policy decisions, such as fiscal and monetary measures, also have an effect on the economy. Fiscal policy, enacted by Congress in the form of tax and/or spending legislation, is the result of the political process and the prevailing political climate. In contrast, monetary policy is the responsibility of the Fed, whose role is to evaluate all factors influencing the economy (individual, market, and government) and take action in attempts to keep the economy on an even keel.

The Fed can manipulate the flow of money in order to obtain a desired effect over time. However, the Fed's most effective short-term policy decisions that can manipulate the economy involve short-term interest rates. Consequently, the Fed can realistically have only one target: inflation. If the Fed perceives that prevailing forces will increase inflation, it can attempt to slow the economy by raising short-term interest rates. It does this based on the assumption that an increase in the cost of borrowing is likely to dampen both personal and business spending. Conversely, if the Fed perceives that the economy has slowed too much, it can attempt to stimulate growth by lowering short-term interest rates, the theory being that lower costs for borrowing may stimulate more spending.

The Fed walks a fine line in trying to maintain this balancing act. If it doesn't tighten the reins soon enough by raising interest rates, it runs the risk of uncontrolled inflation. If it fails to loosen them soon enough by lowering interest rates, the economy could plunge into a recession. An argument could be made that the primary goal of the Fed is to keep inflation low enough that it does not affect business decisions.

Personal Debt

By observing your own spending and debt burden, and that of your friends, relatives, and business associates, you may gain some insight into the short-term future of the economy. While by no means the whole story, this small segment comprises a significant chapter since it is the one factor that consumers exercise the greatest control over. When combined with a little judicious Fed watching (e.g., several interest-rate moves in the same direction may be an indication that the Fed is on a mission), you may have a fairly good basis for general economic forecasting and appropriate financial decisions. $

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