

Wealth Management Update

A view from the Castle

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Many clients ask us what we are monitoring currently here at Castle Wealth Advisors. The range of topics that we are working on each week continues to grow and the list is longer now than what it was three years ago.

In Washington, we are watching what the politicians plan to do with income taxes and federal estate taxes. Any changes that they make in these areas will have a large impact on our clients and their children for years to come.

At state and local governments, we are watching what they do that may have an impact not only on income taxes for clients living in those states, but also on municipal bond values and tax free interest rates.

On Wall Street, the stock market has been going sideways during the summer, but activity usually increases in September or October, and during the fourth quarter of the year we expect to see much more trading activity.

There are a lot of different areas in the world wide stock market that we are monitoring these days. There are purchasing opportunities that we are watching currently here in the US, but there are also good economic opportunities in other foreign countries where growth could be higher than here.

Listed below is a brief review of some of our economic concerns:

- Our economy depends heavily on small and medium sized businesses. These business owners are being cautious during tough times until they know more about the new tax laws, health care costs, and bank lending, and they see some signs of stability with our economy and political activity.
- There is potential for economic growth in the U.S., but we know there will be a better chance of growth in a few other foreign countries that we are watching. International equities and bonds should become a slightly higher percentage for many of our clients' asset allocation.
- Everyone is talking about inflation and we know there is a good chance that it will probably rise but not for 12 to 18 months or longer. Inflation will have a hard time taking off as long as unemployment remains above 7% to 8% of the workforce.

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- The devaluation of the dollar continues to concern everyone. As long as more U.S. dollars are being printed we expect the value to continue to go down slowly. Buying assets to help offset the dollar decline is something that our clients are eager to talk about and implement strategies to protect them.
- The housing market continues to be bad. Foreclosures on homes are still high and appraisers continue to appraise houses for possible refinancing at low values. We have several clients across the country who would like to refinance at a lower interest rate but their home appraisal came in very, very low. Therefore their only option to acquire the lower interest rate is to use cash to pay down mortgage to a lower level that the bank will accept.
- Commercial real estate is bad and it is going to continue to get worse. Shopping centers and strip malls across the country continue to have more vacancies. Commercial real estate owners are going to be forced to walk away from properties that they are unable to refinance.
- Unemployment is somewhere between 9.5% and 15% in most states. As long as unemployment continues to remain high the economy and the stock market are going to continue to languish.
- Main street in most U.S. cities and towns is having a hard time keeping their doors open. The 10% of our work force that is not working are obviously not spending money, and the 90% that is working are being very careful about their weekly purchases, big ticket items, the number of times they dine out per week, and many other areas that they would normally not think twice about.

In the portfolios that we manage through Castle Investment Advisors we are concentrating more on interest and dividend income and trying to generate cash flow for each client because it may be a while before capital gains comes back to Wall Street. We also are investing for our clients in international bonds which pays interest income and diversifies them away from U.S. dollar assets.

What are the chances that the Dow Jones would drop from 10,000 to 9,000 in the next few months? We would estimate that possibility to be about 25%. Most of the bad news about our economy has already been published and seen by everyone. There is always a small chance that something bad could happen to drive our economy lower, but we think most of the bad news has already been covered.

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Employers are not going to start hiring until they know what Washington is going to do with income taxes and new government regulations. **Investors** are going to continue to be very conservative until they know more about what is going to happen in Washington with income taxes, and they need to see signs that home values are starting to increase and employment is starting to get better.

The bottom line for our American economy is there won't be much good news until home values start to increase slightly and unemployment goes down at least 1% or 2%. When those two items happen, our economy will start to improve.

As I said before, we are watching a lot of categories here at Castle Wealth Advisors and we are trying to make conservative decisions for our clients in order to first, primarily protect their net worth for future generations, and second, grow their net worth by using conservative ideas.

Gary Pittsford, CFP®, is President and CEO of Castle Wealth Advisors, LLC. Castle specializes in helping families and closely-held business owners with valuations, succession planning, estate and income tax analysis and retirement income projections. Castle's senior partners work with clients throughout the country in making logical decisions that help them fulfill their personal and business financial goals. For more information visit www.castle3.com, call 1-888-849-9559 or e-mail Gary directly at gary@castle3.com.

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