

2015: A Time for Patience

Don't let the market's jumps rattle your commitment to staying invested.

What the market does today, it may not do tomorrow. That may seem elementary, but there are days, weeks, months, and even years when that investing lesson is ignored. Wall Street started 2015 with pronounced volatility, and in the opening six weeks of the year, investors were again reminded why patience is so important.

What did investors do in January? Sell. The S&P 500 lost 3.10%. Discouraging news items bred pessimism: deflation was coming to Europe, world demand for oil had peaked and prices would never come near \$100 again, the slowdown in Europe and Asia would soon unravel America's economic comeback. An old market belief dictates that the opening month of a year sets the tone for the rest of the year. Clear implication: 2015 equals bad market year. Sell, sell before it is too late.¹

What did investors do at the start of February? Buy. The S&P 500 gained 3.03% in the first trading

week of the month (and it had advanced 2.64% in the 30 days ending February 6). Encouraging news items bred optimism: the European Central Bank unveiled an asset-purchase program extending into 2016 to fight deflation with a scope matching QE3, oil prices began to rebound sharply, assorted earnings pleased Wall Street. Clear implication: 2015 might not be so bad. Buy the dip.^{2,3}

What's the takeaway here? Don't panic. Don't let a down January lead you to put off your annual IRA contribution or trim your per-paycheck retirement plan deferrals. What ground stocks lose, they may quickly regain.

History is no barometer of future stock market performance, but it can be illuminating with regard to how stocks have overcome the "January effect" – a bad January does not necessarily lead to a lousy year. In fact, here is the real eye-opener: during 1989-2014, the S&P finished up for the year 75% of the time after a loss of 2% or greater in January, with an average annual gain of nearly 8% in those market years. (continued on page 2)

The U.S. Savings Bond Tax Trap

Open that safe deposit box and see if your bond has matured. Did you buy U.S. Savings Bonds decades ago? Or did your parents or grandparents purchase some for you? If so, take a look at them before April 15 rolls around. Your bonds may have matured. That means they are no longer earning interest, and it also means you need to cash them in.¹

Check those maturity dates. Sometimes people hold U.S. Savings Bonds past the date of final maturity, often by accident. The old bonds are simply stashed away somewhere and forgotten.

While the Treasury will not penalize you for holding a U.S. Savings Bond past its date of maturity, the Internal Revenue Service will. Interest accumulated over the life of a U.S. Savings Bond must be reported on your 1040 form for the tax year in which you redeem the bond or it reaches final maturity. This must be done even if you (or the original bondholder) chose to have the interest on the bond accumulate tax-deferred until the final maturity date. Failure to report such interest may lead to a federal tax penalty.²

You are supposed to pay tax on a U.S. Savings Bond in one of two ways. Most bondholders choose to defer the tax until the bond matures. Once they redeem the bond, they report the interest through a 1099-INT form. Others choose to pay cashing the bond in, reporting the bond as taxable interest

What if you find out you have for too long? You need to return for the year in which maturity. You can file an help of IRS Form 1040X. It and less arduous to report the U.S. Savings Bond interest on your *latest* federal tax return, but the IRS does not want you to do that. The longer you leave the accumulated interest unreported, the greater the chance you will be cited for a tax penalty (or assessed a larger one than the one already in store for you).²



the tax annually prior to the increase in the value of each year.^{2,3}

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Another note about reporting interest: if a U.S. Savings Bond has matured and you have failed to redeem it, you will not find a Form 1099-INT for it in your records. Only redemption will bring that 1099-INT your way. (The accumulated interest for the bond should have been reported to the IRS regardless.) After you cash in that old bond, you will thereafter receive a 1099-INT. It will record that the interest on the bond was earned in the year of the bond's final maturity.²

Plan ahead and keep track. U.S. Savings Bonds were issued on paper for decades (continued on page 2)

The U.S. Savings Bond Tax Trap *(continued from page 1)*

and were often purchased on behalf of children and grandchildren. They are issued electronically now and receive little recognition, yet they can still prove quite useful to a retiree looking to improve cash flow. When you cash in a bond, or even multiple bonds, the “cash infusion” may help you put off withdrawing assets from another retirement account. While the interest on U.S. Savings Bonds is taxed by the IRS, it is exempt from state and local taxes.⁴

You want to keep track of the maturity dates, the yields and the interest rates on your bonds, as that will help you to figure out what bond to redeem when. A decades-old U.S. Savings Bond may cash out at anywhere from three to nine times its face value at full maturity.⁴

As a useful search tool if own a Series E U.S. Savings Bond, you might want to check on its maturity date at savingsbonds.gov/indiv/tools/tools_treasuryhunt.htm, which provides records of Series E bonds issued since 1974.⁵

Citations

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In fact, only twice in the past quarter-century has a bad January presaged a bad year for the index (2000, 2008). In 2009, it lost 8.57% in January and went +35.02% for the rest of the year. In 2003, it gave up 2.74% for January, then went +29.94% across the next 11 months. This illustrates that on Wall Street, anything can happen – and that includes good things.⁴

Stay patient and stay invested. The last couple of years have been notably placid for U.S. stocks. Entering February, the S&P had gone more than 1,200 days without a correction. That lulled some investors into a comfort zone, to the point where they overreacted to significant (but in no way aberrant) stock market fluctuations.⁵

Patience is a virtue for the long-term investor trying to build wealth for retirement and other future objectives. Already, this stock market year has highlighted its value. The Federal Reserve may elect to raise interest rates and the strong dollar may persist for some time, but those factors may not hold back the bulls in 2015 any more than many others have since 2009.

Citations

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**“Save early, save often.
Time and patience are the
investor’s best friends.”**

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Protecting Yourself While Shopping Online



What steps should you take? Whether you shop online routinely or infrequently, the risk of identity theft rises as you offer more and more information about yourself online.

Avoid using a debit card, and use only one credit card. If your debit card gets hacked, the thieves may be able to access your bank account. But if you use just one credit card for online shopping, you will have only one card to cancel if your card number is compromised. (It would also be wise to keep a low credit limit on that particular card.)

Look for the “https://” before you enter personal information. When you see that (look for the “s”), it should indicate that you are transmitting data within a secure site. Depending on your browser, you may also see a padlock symbol at the bottom of the browser window.

Watch what you click and watch out for fake sites. Pop-ups, attachments from mysterious sources, dubious links – do not be tempted to explore where they lead. Hackers have created all manner of “phishing” sites and online surveys – seemingly legitimate, but set up to siphon your information. It is better to be skeptical.

Protect your PC. When did you install the security and firewall programs on your computer? Have you updated them recently?

Change stored passwords frequently. Make them unique and obscure. It is a good idea to change or update your passwords once in a while. Mix letters and numbers, and use an uppercase letter if possible. Never use “password” or your birth date as your password!

Don’t shop using an unsecured Wi-Fi connection. You are really leaving yourself open to identity theft if you shop using public Wi-Fi. Put away the laptop and wait until you are on a secure, private internet connection. Hackers can tap into your Smartphone via the same tactics by which they can invade your PC.

Celebrating Earth Day

April 22 is Earth Day – a day all about awareness and appreciation of our planet, its resources and its environment.

In its early years, Earth Day was little celebrated and little noticed. Now, it is a worldwide event, a reminder to look at the way we live and to live sustainably. Earth Day has led people to plant trees, bike to work, restore wildlife habitat, eat locally grown foods and make cities greener.



This Earth Day, let’s all consider what we can do to help sustain our planet and be good stewards of our world, for ourselves and our kids. Even the smallest actions can add up to something big.