Financial Planning News
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Mentor Monthly Missive

Rolling over a 401(k)? Usually a smart move

Like divorcees who just can't let go, tens of thousands of people leave their jobs each year without taking their 401(k) balances with them.

Job-switchers and retirees leave an estimated $40 billion each year in former employers' retirement plans. For most of them, it's not because they've carefully considered the costs and benefits of their options. It's a simple case of inertia.

Employees have three options when they leave a job where they've accumulated a 401(k) balance:

- Leave your money in the plan;
- Transfer the money to an IRA;
- Withdraw your money from the plan;

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Attention Schwab customers

Beginning in April, unless there is activity in your account that regulations require Schwab to report, your Schwab account statement will be mailed only once a quarter.

You'll receive a monthly statement when your account has transactions such as deposits, withdrawals, trades, and stock dividend distributions.

You'll receive a quarterly statement when your account has no activity or only a minor transaction such as payment of interest on cash in your account.

Mentor Capital highly suggests signing up for E-Delivery for all correspondence to further these environmental efforts.

Mentor client corner

As tax season comes to a close for most individuals, please make sure to send a copy of your completed federal and state tax returns to Mentor Capital. These returns are imperative for on-going tax analysis and planning purposes. Feel free to use our secure web portal to transmit these, and any other, important documents.

Meet our Wealth Managers

Mentor Capital Management Inc. was founded in response to the belief that a consumer's best interests are served when his or her financial planner is Fee Only. Advisors of Mentor Capital strive to provide objective, prudent and thoughtful advice to clients based on their personal goals and objectives.

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Market Commentary from Charles Schwab & Co.

"Rigged!"

Inflammatory statements and proclamations, combined with numerous other headlines constantly bombarding investors, can make it difficult for investors to keep a clear head. The market has taken countless hits over the course of many years, from wars, to recessions, to financial and political scandals, to bubbles, and on and on…but it keeps rewarding those who have a longer-term perspective and don't panic when the inevitable pullbacks come. A decent-sized pullback, in fact, would not be a surprise, and would be welcomed by us to help set up the next solid move higher. Already, we have seen some of the more frothy names in areas such as biotech and social networking sell off, helping to lessen the talk of a "stock market bubble" without inflicting much actual damage to the broad market. These are referred to as "internal" corrections and they're typically healthy.

While a broader pullback in stocks in the near term could occur, it doesn't appear that the concerns raised by the controversy around high-frequency trading and the "rigged" claim by author Michael Lewis will be the start of it. Stock indexes hit all-time highs in the days following the release of Lewis' book *Flash Boys*. There are highly-justifiable criticisms (including by Chuck Schwab and Schwab CEO Walt Bettinger) about high frequency trading (HFT)—notably the most egregious practices like "quote stuffing." We do believe they will be addressed, and it remains the case that the US stock market is the most trusted and liquid in the world, evidenced by the number of foreign and domestic participants. And overall, for investors, the cost of doing business has improved greatly over the past decade, regardless of whether you believe HFT has been behind some of that. Spreads have compressed, execution times have improved, and commissions have been greatly compressed…all to the benefit of individual investors.

Spring thaw in process?

More important, in our view, is economic growth. The weather is finally starting to turn, and economic data is returning to a more trustworthy state. But, it's early, and first quarter earnings season is just beginning as well. Expectations are relatively low, in large part due to the weather, but there is increased interest in commentary and forward guidance, which could be a catalyst for the next near-term move in the market. With corporate confidence improving and some fiscal concerns receding, we expect a relatively optimistic, yet cautious, tone to prevail.

On the economic front, both versions of the Institute for Supply Management's (ISM) surveys showed improvement. The Manufacturing Index rose to 53.7 from 53.2, while new orders encouragingly increased to 55.1 from 54.5. The Non-Manufacturing Index, representing the larger service side of the economy, showed a nice gain to 53.1 from 51.6, while the employment component bounced from 47.5 to 53.6. Additionally, auto sales appear to be rebounding from a weather induced pause, indicating that consumer demand is still decent and confidence is improving. One economic concern for us remains the housing market, which doesn't appear to be bouncing back as quickly as we had hoped. Mortgage applications for purchases continue to languish, while lumber prices, typically a good leading indicator of housing starts, have weakened. As we enter into to the critical spring and summer season, we expect improvement. Aiding our belief in a renewed housing improvement, the labor market continues to improve. ADP reported 191,000 private sector jobs were added in March, while February's number was revised higher by almost 40,000 jobs. Additionally, the Labor Department's report showed that 192,000 jobs were added last month and previous months' were revised higher; while the unemployment rate stayed at 6.7%. March may prove to be the transition month, where we deal with the last remnants of the winter weather, and start to see a pickup in hiring.

Fed finding its footing, government still a hindrance

Jobs continue to be a focus of the Federal Reserve, even under new leadership. After a bit of fumbling during Chairwoman Yellen's first post-meeting press conference, members have tried to clarify their position, with varying degrees of success. The Fed is trying to find the right tone, and some increased market volatility may result. Ultimately, the Fed is still concerned with elevated unemployment, especially the longer-term unemployed. By some estimates, the short-term unemployed are at levels consistent with relatively full employment, but it is longer-term unemployment that remains elevated, and finding solutions to that problem is more difficult. The Fed's tapering of its quantitative easing (QE) program continues, but it remains cautious and methodical in its attempt to return to normal monetary policy. As we get closer to November's midterm elections, it becomes less likely anything of substance gets done in Washington. Budget ideas have been presented by both sides, with apparently little chance of becoming law, and challenges remain. We believe both sides have an interest in lowering the corporate income tax rate, which is among the highest in the world, but this environment doesn't

Market Commentary .... continued

seem conducive to getting much done.

Europe: ready, set…will they go?

Leading through talk instead of action continues to be the story across the pond as growth in the eurozone has yet to be strong enough to generate inflation. Instead, a prolonged period of low inflation is predicted by the European Central Bank's (ECB), while some experts have questioned whether the euro zone will enter a period of deflation like Japan. Deflation, or a broad-based decline in prices, is a risk because falling prices could become self-fulfilling if consumers and businesses postpone purchases and investments on the expectation that prices will be lower in the future. Thus far, eurozone inflation is still in positive territory and inflation expectations have recently rebounded, but the ECB is not forecasting hitting its target of "at or below 2%" inflation for several years – the 2016 forecast is 1.8%. The ECB at its April meeting confirmed that there was now "unanimous commitment" to using "unconventional instruments." The most rumored unconventional instrument is a U.S.-style quantitative easing (QE) program. Unlike the Fed, the ECB's asset purchases are "sterilized," wherein liquidity injections are offset by asset sales. While the ECB appears to be increasingly open to the prospect of "non-sterilized" QE, the ECB is prohibited from "monetary financing," or financing the fiscal spending of individual countries, so assets would need to be bought across all eurozone countries or by purchasing foreign assets such as U.S. Treasuries.

There has even been talk that the ECB modeled a one trillion euros ($1.38 trillion) asset purchase program, which would possibly purchase bank loans in the asset-backed securities (ABS) market. However, the ECB would be unlikely to undertake this type of program until completing its "Comprehensive Assessment" on the banks, which is not expected until this fall. Additionally, the size of the ABS market may not be large or active enough for the ECB to carry out this type of program. While ECB President Mario Draghi's words have swayed markets in the past, markets may become doubtful the longer talk is not followed up with action. Un-sterilizing the current asset purchase program is possible, but we are skeptical the ECB will take significant action in the near term, and it is possible that lending begins to thaw and deflation risks subside before any broader program could even be implemented. We believe the eurozone's recovery will continue, albeit at a sluggish pace. Risks include additional moves by Russia that could threaten energy imports into the region, as well as the potential for renewed anti-euro sentiment ahead of the European Parliament elections in late May. Despite the risks and potential for volatility, we remain positive on European stocks, due to the prospects for economic and corporate profit margin improvement.

Japan: short-term or longer-term drop in growth?

After an explosive start, Prime Minister Abe's plan to revive Japan has stalled. In fact, one of the three "arrows" of his plan, fiscal stimulus, appears to be more of a boomerang, now a hindrance to growth. Fiscal spending is tightening; expected to add only 0.2% to growth in fiscal 2014 according to the government, down from the 1.1% in fiscal 2013 and 0.3% in fiscal 2012. Additionally, the sales tax was raised to 8% from 5% on April 1. Japanese policymakers appear satisfied with their results thus far, with a lull in new measures over the past year, but consumers don't share the sentiment. Consumers, which represent roughly 60% of the economy, were struggling even before the tax hike took effect, as wages have not kept up with inflation, reducing consumers' purchasing power. While most economists expect a magnification in the size of the Bank of Japan's (BoJ) QE program in July, we believe this arrow alone will be insufficient to bring lasting growth to Japan. Structural reforms are needed, but have been nearly absent thus far.

Is China the next shoe to drop?

Concerns about the potential for China to have a Lehman moment also need to be put into proper perspective. China's current situation and that of the United States in the pre-Lehman days are apples and oranges by comparison. Big differences are that China over-saves, with domestic savings of about 50% of GDP, translating into new savings of $4.5 trillion every year. And China is in a current account surplus position, not reliant on foreign capital for growth. As China has an immature equity market, debt issuance is the main method by which the savings pool gets put to work. Other differences are that a majority of bank assets are government controlled, China has a closed capital account that restricts money moving in and out of the country, and has $3.8 trillion in foreign exchange reserves to fight a liquidity crisis.

Market Commentary .... continued

That said, we believe imbalances in China's economy have been built due in part to the heavy influence of the government, which necessitates structural change and slower growth to repair. In light of this, the reforms announced last fall are a positive development, but policymakers have a fine line to walk – implementing reforms and reducing credit growth, while keeping growth from falling too much. We believe part of the slowdown at the turn of the year was due to tighter credit and a reduction in government spending. Fiscal coffers may now be loosening, with announcements including stimulus to redevelop shantytowns, increased rail spending, tax breaks for small- and medium-sized businesses, and new funding sources in the form of development banks.

One area we are closely monitoring is the recent property market slowdown, which could have repercussions for the overall economy if it deepens or is lasting. However, forthcoming stimulus amid pervasive pessimism could provide a base for Chinese stocks to recover. Meanwhile, the recent rebound in the broader MSCI Emerging Market Index may not be sustainable, as potential new leaders in India, Indonesia and Brazil may not be able to implement the hoped-for reforms. We believe China will outperform the emerging market universe.

So what?

Getting caught up in the weeds is easy in this 24-hour news cycle where everyone is looking to make a splash, but successful investing requires staying above the fray. The U.S. economy is growing and equities appear fairly valued, Europe has issues to deal with but has come a long way from the depths, Japan may be working against itself but improvement has been seen, and the threat of a Chinese debacle at this point seems minimal.

Dirty Money

New York University researchers have discovered some grimy details about your $1 bills ... and the findings might make you want to wash your hands more than once. Researchers at NYU found more than 3,000 different types of bacteria. That's right - 3,000! Researchers with NYU's "Dirty Money Project" collected 80 $1 bills from a bank in Manhattan. They found nearly 1.2 billion DNA segments. And, believe it or not, only about half of that DNA was human!

"From human and dog to horse ... and even rare white rhino."

But NYU says the most common bacteria they found might surprise you even more: "The one they found the most often causes acne." And to *really* push you over the top, there's a lot of bacteria scientists weren't even able to identify.

"Scientists were only able to identify 20 percent of the germs that live on some dollar bills."

According to The Wall Street Journal, researchers say other microorganisms found are linked to gastric ulcers, pneumonia, food poisoning and staph infections. Jane Carlton, director of genome sequencing where the university-funded work was performed, said: "We actually found that microbes grow on money."

According to research published last year in the journal Antimicrobial Resistance & Infection Control, scientists attempted to grow bacteria on seven different currencies and found some germs lived longer on plastic banknotes.

According to an older report from ABC, one doctor said, "$1 bills are widely used and each is exchanged many times ... if some are contaminated with bacteria, there is potential to spread these organisms from person to person."

Have a question?

Do you have a question or want more information about any of the issues discussed in Mentor's Monthly Missive? Are you concerned about whether the financial decisions you're making are right for you? Would you like a second opinion about an action you're thinking of taking or something recommended to you by a stockbroker or insurance agent?

We offer a no-obligation initial consultation that might help. Please phone to set an appointment with one of our advisors. It could be the most financially worthwhile 45 minutes you've ever spent!

Rolling over a 401(k)....continued

Here, we'll discuss the pros and cons of each option:

Leave your money in the plan. If the employer allows it (most do), the departing employee can simply do nothing, and his or her money will remain in the account. A major benefit of this option is that penalty-free withdrawals may be made from 401(k) plans as early as age 55 (the age is 59 ½ for IRAs). Another: Since the 401(k) is covered under the federal ERISA, it enjoys a statutory protection from the claims of creditors. In many states, though, including Illinois, case law has determined that IRAs also enjoy this protection. The 401(k) may have cost-efficient investment choices available. On the other hand, the 401(k) may include many expenses that aren't readily visible to the account holder. An assessment of expenses is an important consideration in deciding whether to leave money in an employer's retirement plan.

Leaving money behind in a 401(k) can have disastrous results. The case of Penn Specialty Chemicals is a particularly scary one. The Memphis company declared bankruptcy, and although the assets of its 401(k) were supposed to be transferred promptly to employees, they weren't. It took five years for the employees to get their money, and their accounts were charged administrative and legal fees in the meantime. Penalties were assessed against some former employees who couldn't take mandatory distributions from the plan when they reached age 70 ½. This is admittedly an extreme case, but it shows what can happen when you leave your retirement funds under the control of a former employer. Most people want a clean break when they leave a job.

In our opinion, rolling assets from a former employer's 401(k) plan into a new employer's plan is not a good choice, either. Once funds are in the plan, if allowed, money can be borrowed out, but that's usually not a smart financial move, anyway. Also, distributions are not required at age 70 ½ if the employee is still with his or her company. This is not much of a plus for most people, though, because few intend to work beyond that age anyway.

Transfer your plan assets to an IRA. This is usually the preferred choice. It results in maximum flexibility and maximum control, and there is no concern about a former employer creating problems. For most people, the ability to take penalty-free withdrawals at age 55 is not a big benefit.

Once the assets are in an IRA, they can be converted to a Roth IRA if that makes sense. A full range of IRA investment choices is available, including stocks, bonds, ETFs and mutual funds. Costs and fees are transparent in most cases, although the investor should still do his homework to make sure there are no hidden costs.

Once in the IRA, the funds can also be converted to a guaranteed lifetime stream of income through the purchase of an immediate fixed annuity. A partial or full withdrawal of the funds can be made without tax or penalty, as long as the funds are rolled back into the same IRA or a different one within 60 days.

Withdraw your money from the plan. This is the least desirable option, as it would result in taxes, and penalties in the event that the account holder is younger than 55. Of course, if the account holder experiences a lengthy period of unemployment or other financial catastrophe, there may not be any choice but to withdraw. Rolling a 401(k) balance into an IRA first, though, would allow the timing of withdrawals to meet cash-flow needs and to minimize income tax impacts.

Stockbrokers are often criticized for recommending that clients roll their 401(k) balances into IRAs, solely for the purpose of putting them into heavily loaded mutual funds or insurance contracts. Advisers with Mentor Capital have no such conflict of interest, because our fees already take 401(k) balances into account. We have no particular incentive to encourage a 401(k) rollover to an IRA, other than that it is usually in the client's best interests.

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