



# NEW ENGLAND GUILD WEALTH ADVISORS

INVEST IN CONTEXT

## Market Spotlight

Returns as of 3/31/14

Index	1 <sup>st</sup>	Annual		
	QTR	1YR	3 YR	10 YR

S&P 500 (inc. div.)	1.8%	21.9%	14.7%	7.4%
Russell 2000	1.1%	24.9%	13.2%	8.5%
MSCI AC World xUS	0.5%	12.3%	4.2%	7.1%
MSCI AC World	1.1%	16.6%	8.6%	7.0%
REITs	8.8%	2.1%	9.2%	7.0%
Barcap Agg. Bond	1.8%	-0.1%	3.8%	4.5%
90 Day T-Bills	0.0%	0.0%	0.1%	1.6%

Profit-taking from 2013's strong run as well as currency and credit problems in several emerging markets threatened to derail the stock market as 2014 began. Those factors, combined with the prospect of less support from the Federal Reserve, a slowing Chinese economy, weather-related economic challenges in the US and renewed Cold War tensions, led to a volatile quarter for equities. After a dismal January, equities regained some strength once Congress avoided a fight over raising the debt ceiling limit.

In the latest three months, "value" funds that buy stocks at low valuations did better than "growth" funds focused on fast-expanding companies. While small caps suffered in late March ending the quarter up 1.1%, large cap stocks proved to be more resilient. On the bull market's fifth anniversary, the S&P 500 was only a couple of hundred points away from having tripled since its March 2009 low; ending the quarter up 1.8%. Investors didn't fare as well overseas as they did closer to home. Foreign stocks gained a modest 0.5%; while emerging markets continued to decline. REITs were the top performing asset class for the quarter, posting an 8.8% gain.

International uncertainty lured back money that had been invested overseas in recent years. At the same time,

*continued on page 2*

## Tax Basis, Gifting & Inherited Assets

Simply put, tax basis (or, cost basis) is the value used to determine taxable income when an asset is sold, resulting in a gain or loss for income tax purposes. While there may be other things that affect tax basis, tax basis is most often the price one paid for the asset under review. If the asset was acquired as a gift from another individual, the tax basis in the hands of the recipient of the gift (the "donee"), is the donor's tax basis. Note that an exception to this rule exists when the donor's tax basis is higher than the fair market value (FMV) of the asset on the date the gift was received. In this case, the calculation of gain or loss on the subsequent sale of the gifted asset can be somewhat involved but we'll ignore that for purposes of this article.

Tax basis for the owner of an asset is adjusted at the owner's death to the FMV on the date of death (ignoring "alternate valuation date"). The adjustment of tax basis is often referred to as a "step up" in basis, but it is important to note that a "step down" in basis will occur if the FMV is lower than the decedent's basis at the time of death. Given the mechanics of basis adjustment that occurs at death, consideration of the impact of tax basis should always be a part of the decision related to gifting during one's lifetime versus holding the asset until death to provide the recipient of the asset with a step up in basis. Commonly, inter-spousal transfers occur whereby one spouse transfers highly appreciated assets to an older or ailing spouse with the goal of receiving a new, higher tax basis, at the death of the ailing spouse. A transfer (gift) from one spouse to the other incurs no gift tax because of the "unlimited marital deduction" and transfers the gifting spouse's tax basis to the recipient spouse so long as the recipient spouse survives the transaction by more than one year. However, if the recipient spouse dies before the one-year period expires, no step up in basis is allowed making this rule important to keep in mind when contemplating transfers.

Transfers between individuals and someone other than one's spouse presents other considerations, most common is whether the transfer of appreciated assets should occur presently or should it be retained by the owner to achieve the step up in basis at death? A common goal of lifetime transfers is to remove expected future appreciation from the donor's estate. While the lifetime transfer is effective in accomplishing this (note exceptions exist), the loss of the step up in basis can more than offset the beneficial aim of the transfer. Placing the asset in the recipient's hands with a low tax basis may trigger capital gains taxes on a future sale that dwarf the avoided estate taxes.

In summary, tax basis should always be an important consideration prior to the transfer of appreciated assets.



money that had been pulled from bond funds during 2013's second half began to flow back into bonds during the first quarter, pushing bond prices higher and the yield on the 10-year Treasury lower. As a result, the Barcap Aggregate Bond Index ended the quarter up 1.8%, with strong performance seen in investment grade and high yield municipal bond sectors.

As a relentless winter finally begins to release its grip on much of the country, investors may get a clearer sense of whether sluggish first quarter economic data was primarily the result of bad weather or something more troubling. Speculation about the timing of a Fed rate hike, along with Fed tapering, will likely continue; while overseas, the state of China's slowing economy will remain a focus; and potential for tougher economic sanctions against Russia (which could affect global oil supplies), bears watching.

That said, no one can predict the markets. To quote Chinese philosopher Lao Tzu, "Those who have knowledge, don't predict. Those who predict, don't have knowledge!" But if you believe that the global economy will continue to come back; haven't been scared off by round-the-clock market pundits; and have carefully customized an investment plan that reflects personal goals and cash needs; you should continue to do well. While 2014 may not be like 2013; and, in fact, may be more volatile, we believe that it should be a good year for investors who stay balanced; stay invested broadly around the world; and build wealth through disciplined and diversified investing.

Data Source: Broadridge Investor Communication

### Professional Advisory Board Formed at the Guild

We are pleased to announce that Attorney Paul Hudon, Anne Melissa Dowling and Kay Clarke have been appointed to our newly established Advisory Board. Under the Chairmanship of Eliot Williams, CFA (of Counsel), the Board will provide important advice and counsel with respect to policy and business strategy as we strive to better serve our clients and succeed as a business.

*"In the spring I have counted one hundred and thirty-six different kinds of weather inside of four and twenty hours"*  
Mark Twain

### Consider Smart Chip Credit Cards for Overseas Travel

If you are traveling overseas, you may want to take along a credit card with a smart chip. A smart chip is a built-in microprocessor that provides an extra layer of security. In addition to the new chip technology, a cardholder must put in their pin number for each transaction to be approved. "Chip & pin" makes it much harder for credit card hackers and fraudsters to steal from consumers. The system is more widely accepted in Europe however we're seeing more and more consumer demand in the U.S.

If you're in the market for a new credit card, chances are you can find one that suits your needs financially with chip & pin. Just be sure that it also does not charge foreign transaction fees. U.S. cards with chips include: American Express; Bank of America; JP Morgan Chase ("chip technology" later this year); Citi; USAA; Wells Fargo.

### CONGRATULATIONS to the UCONN HUSKIES!



Fresh off leading UCONN men's and women's basketball teams to national championships, Coaches Kevin Ollie and Geno Auriemma rang the closing bell on Wall Street. Unfortunately, they were unable to extend their winning streaks to the markets as the Dow ended down 267 points that day...Congrats Geno and Kevin - but please stay on the "Courts" and off "The Street"!

Since 1995, the UConn men's and women's basketball teams have combined for 19 Final Four appearances and 13 National Championships. UConn is the only school to win the men's and women's basketball national championship in the same season, a feat the Huskies have now accomplished twice (2004 and 2014)!

**Excursion:** VINTED is a Wine Bar & Kitchen located in Blue Back Square in West Hartford that offers a selection of more than 60 wines available by the 1-oz taste, 3-oz half glass, or 6-oz full glass, accompanied by a Modern American Tapas menu to complement the impressive wine list. It also features a full bar. Don't miss the risotto balls, fried oyster lettuce cups or pan roasted mussels.

63 Memorial Road, West Hartford, CT [www.vintedwinebar.com](http://www.vintedwinebar.com) (860).206.4648

OUR FIRM CONTINUES TO GROW BY REFERRALS FROM OUR CLIENTS. THANK YOU FOR RECOMMENDING US.

#### NEW ENGLAND GUILD WEALTH ADVISORS TEAM

Harold L. Rives III, CPA  
William R. Pfeiffer, Jr.

Susan M. Grayson  
Brendan F. Fitzgerald  
Claudia G. Flannery

E. Patrick Logue, CPA  
Eliot P. Williams, CFA, Of Counsel

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to in this commentary, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as investment advice from New England Guild Wealth Advisors, Inc. To the extent that you have any questions regarding the applicability of any specific issue discussed above to your individual situation, you are encouraged to consult with the professional advisor of your choosing.