Wealth Management Process™

Protection

- Life Insurance
- Disability
- Umbrella/Liability
- Long-term Care

This Quarter: Protection

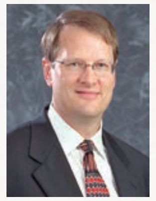
This quarter's topic, *Protection,* uncovers gaps within our clients' insurance needs. Going beyond a simple life insurance snapshot, we analyze scenarios in which disability could occur or potential long-term care needs arise. As you can imagine, it's burdensome, if not financially devastating, for the family if these issues are not addressed. If additional needs are required, we coordinate a competitive bid from multiple providers.

Next Quarter: Tax Efficiency

BEACON HILL
INVESTMENT ADVISORY
84 South Fourth Street
Columbus, OH 43215


Clint Edgington, CFA


Mark Fissel, CFP®


William Shorthill, CFP®

Quarterly

BEACON HILL INVESTMENT ADVISORY
Summer 2014

Summer greetings! This quarterly update is packed with up-to-date information to keep you on track. Below are the top insights for the summer, from market updates to 401(k) changes. Wishing you and yours a wonderful holiday weekend and enjoyable summer!

Best Wishes – The Beacon Hill Team

Quarterly Market Review

After a rocky start, the quarter eventually made up for domestic equities' earlier losses. As winter weather finally lost its chokehold on the U.S. economy, investors also grew increasingly comfortable with the Federal Reserve's slow-and-steady approach to unwinding quantitative easing. As a result, they were willing to take on risk again, handing the Dow and S&P their 11th and 22nd all-time record closes of the year. As tech and biotech stocks rebounded from their early-spring slump, they helped push the Nasdaq back to a level it hadn't seen since March 2000. By June, the small caps of the Russell 2000, which suffered the most in April, had managed to climb back into positive territory for the year, and the Global Dow's year-to-date performance was more than triple that of its U.S. counterpart.

Bond investors continued to confound Fed-wary pundits, sending the benchmark 10-year Treasury yield down as demand pushed up prices. With Iraq joining Ukraine as a source of geopolitical anxiety, concern about oil supplies helped send the spot price above $107 a barrel. And despite some volatility that took the price of gold down to roughly $1,240 an ounce, a June rally allowed it to end the quarter at roughly $1,320.

Market/Index	2013 Close	As of 6/30	Month Change	Quarter Change	YTD Change*
DJIA	16576.66	16826.60	.65%	2.24%	1.51%
NASDAQ	4176.59	4408.18	3.90%	4.98%	5.54%
S&P 500	1848.36	1960.23	1.91%	4.69%	6.05%
Russell 2000	1163.64	1192.96	5.15%	1.70%	2.52%
Global Dow	2484.10	2605.62	1.16%	4.11%	4.89%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	3.04%	2.53%	5 bps	-20 bps	-51 bps

**Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.*

Quarterly Economic Snapshot

- The end of winter weather brought greater relief than usual this spring, especially after gross domestic product was shown to have contracted strongly in Q1. The Bureau of Economic Analysis's final 2.9% GDP estimate was the worst reading since early 2009 and a far cry from the 2.6% growth of the previous quarter. The BEA said most of the decline was caused by cuts in exports, business investments/inventory, and state and local government spending, while consumers spent more on higher heating costs. The slump caused the Federal Reserve to cut its economic growth forecast for all of 2014 to 2.1%-2.3%. Meanwhile, corporate profits were down 9.1% during the quarter–the largest drop since the end of 2008, according to the BEA.
- The U.S. economy finally regained all of the jobs lost since the recession officially began in late 2007, and total employment was higher than when it previously peaked in January 2008. Also, the unemployment rate inched downward to 6.3%–its lowest level since September 2008.
- By the end of the quarter, the housing market had begun to rebound from its winter slowdown as more homes came onto the market. According to the Commerce Department, sales of new single-family homes leaped 18.6% in May, and the National Association of Realtors® said that the 4.9% increase in home resales was the biggest monthly gain in nearly three years. Also, April was a strong month for both housing starts and building permits, though they had tapered off by the end of the quarter.
- U.S. manufacturing also showed signs of strength. Industrial production rose for three months out of four, according to the Federal Reserve. And after three straight months of increases, durable goods orders slumped in May, but the Commerce Department said non-defense orders were up 0.1%. And once winter weather abated, retail sales also showed gains.
- By quarter's end, consumer inflation had risen at the fastest monthly pace (0.4%) in more than a year. The Bureau of Labor Statistics said the increases were driven by higher prices for housing, food, electricity, and gas. However, Fed Chair Janet Yellen called recent upticks "noisy" data and said the 2.1% inflation rate for the last 12 months isn't a concern. The past year's 2% increase in wholesale prices is substantially higher than the 1% of last May, but also within the Fed's comfort zone. However, one of the Fed's favorite inflation gauges–personal consumption expenditures–saw its biggest 12-month gain since October 2012, raising questions about possible future inflation.
- The Federal Reserve's monetary policy committee continued to unwind its economic support by cutting $10 billion worth of bond purchases each month. The committee now predicts that additional improvement in the economy and job market in coming months will allow it to increase the current near-zero target rate to 1.2% by the end of 2015 and 2.4% in 2016. Longer-term, however, it sees that rate leveling out around 3.75%.
- To stimulate lending, the European Central Bank's key interest rate was cut to -.01%; it's now essentially charging banks to hold their funds rather than paying interest on deposits. The ECB also said it's prepared to take additional steps later if necessary. The action is designed to stimulate lending, stave off the threat of deflation, and help jump-start the European economy, which grew 0.3% or less during Q1.
- The Chinese economy showed signs of slowing. According to the country's National Bureau of Statistics, the annual growth rate dropped below the official 7.5% target to 7.4%, the HSBC Purchasing Managers' Index of Chinese manufacturing showed a slight contraction, and housing sales prices fell in half of 70 major cities.

Source: Broadridge

Have the Rules for 401(k) In-Plan Roth Conversions Changed?

Yes. Thanks to the American Taxpayer Relief Act of 2012 (ATRA), the rules for making 401(k) in-plan Roth conversions have gotten substantially easier. (These rules also apply to 403(b) and 457(b) plans.)

In-Plan Roth Conversions

A 401(k) in-plan Roth conversion (also called an "in-plan Roth rollover") allows you to transfer the non-Roth portion of your 401(k) account into a designated Roth account within the same plan. The amount you convert is subject to federal income tax in the year of the conversion (except for any nontaxable basis you have in the amount transferred), but qualified distributions from the Roth account are entirely income tax free. The 10% early distribution penalty doesn't apply to amounts you convert (but that penalty tax may be reclaimed by the IRS if you take a non-qualified distribution from your Roth account within five years of the conversion).

While in-plan conversions have been around since 2010, they haven't been widely used, because they were available only if you were otherwise entitled to a distribution from your plan–for example, upon terminating employment, turning 59½, becoming disabled, or in other limited circumstances. But in that case, you already had the option of rolling your funds over (converting) into a Roth IRA.

ATRA to the Rescue

ATRA eliminated the requirement that you be eligible for a distribution from the plan in order to make an in-plan conversion. Now, if your plan permits, you can convert any vested part of your 401(k) plan account into a designated Roth account regardless of whether you're otherwise eligible for a plan distribution. The IRS has also just recently issued regulations that provide additional clarity on how in-plan conversions work.

Whether a Roth conversion makes sense financially depends on a number of factors, including your current and anticipated future tax rates, the availability of funds with which to pay the current tax bill, and when you plan to begin receiving distributions from the plan. Also, you should consider that the additional income from a conversion may impact tax credits, deductions, and phaseouts; marginal tax rates; alternative minimum tax liability; and eligibility for college financial aid.

Source: Broadridge

Is there a New One-Rollover-Per-Year Rule for IRAs?

Yes–starting in 2015. The Internal Revenue Code says that if you receive a distribution from an IRA, you can't make a tax-free (60-day) rollover into another IRA if you've already completed a tax-free rollover within the previous 12 months. The long-standing position of the IRS, reflected in Publication 590 and proposed regulations, was that this rule applied separately to each IRA you own.

Example Demonstrates the Rule

Using an IRS example, assume you have two traditional IRAs, IRA-1 and IRA-2. You take a distribution from IRA-1 and within 60 days roll it over into your new traditional IRA-3. Under the old rule, you could not make another tax-free 60-day rollover from IRA-1 (or IRA-3) within one year from the date of your distribution. But you could still make a tax-free rollover from IRA-2 to any other traditional IRA.

Recently a taxpayer, Mr. Bobrow, did just what the example above seemed to allow, taking a distribution from IRA-1 and repaying it back to IRA-1 within 60 days, and then taking a distribution from IRA-2 and repaying it back to IRA-2 within 60 days. Unfortunately for the taxpayer, the IRS decided this was no longer the correct interpretation, and told Mr. Bobrow that his transactions violated the one-rollover-per-year rule. The case made its way to the Tax Court, which agreed with the IRS and held that regardless of how many IRAs he or she maintains, a taxpayer may make only one nontaxable 60-day rollover within each 12-month period.

Not surprisingly, the IRS has announced that it will follow the Bobrow case beginning in 2015 (more technically, the new rule will not apply to any rollover that involves a distribution occurring before January 1, 2015). For the rest of 2014 the "old" one-rollover-per-year rule in IRS Publication 590 (see above) will apply to any IRA distributions you receive. But keep in mind that you can make unlimited direct transfers (as opposed to 60-day rollovers) between IRAs–these aren't subject to the one-rollover-per-year rule. So if you don't have a need to actually use the cash for some period of time, it's generally safer to use the direct transfer approach and avoid this potential problem altogether.

(Note: The one-rollover-per-year rule also applies–separately–to your Roth IRAs.)

Source: Broadridge