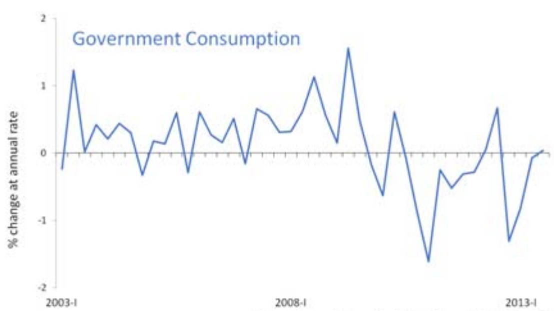
SIENA
WEALTH MANAGEMENT, INC.

GDP Growth Data Masks Strength Of The Recovery

Economics 101 teaches you that growth in the economy is measured by gross domestic product (GDP), but factors included in calculating GDP are masking an important trend in the economy that investors should be mindful of.

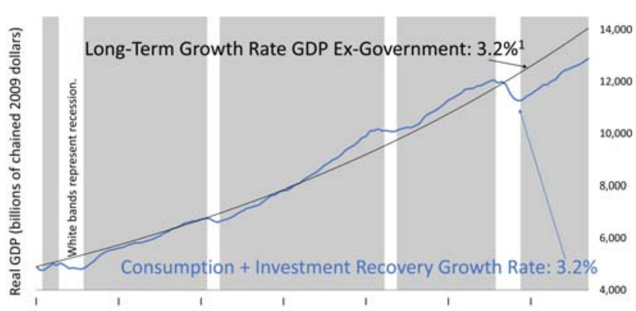
GDP is the sum total of consumer spending, investment made by the private-sector, net exports, and government spending. The formula econ teachers have always taught students is GDP = C + I + G + Net Exports. But changes in attitudes toward government spending over the last three decades belie the reliability of the old formula for economic growth. The notion that government spending should be part of a measure of economic output is questionable, and including government spending in the GDP growth figure masks the strength of the private sector in the current recovery.



Source: Bureau of Economic Analysis; through September 2013.

Government spending accounts for 18% of U.S. GDP. In recent years, however, government spending has been cut sharply, with the deepest cuts sustained by state and local government agencies. The chart below showing state, local, and federal government spending's contribution to the rate of growth in GDP illustrates the sharp cuts by government following the global financial crisis of 2008-2009.

Many economists would argue that reducing government spending will increase economic growth in the long run by leaving more resources available for reinvestment by the more productive private sector. However, in the recent short-run it's clear that cuts in government spending have reduced GDP. To be clear, while reducing government spending is thought to be good for economic growth, it reduced GDP growth in recent years. Government spending cuts, which many economists would argue are a positive factor, show up as a negative in the GDP formula.



Source: Bureau of Economic Analysis data through September 2013.
[1]Compound Annual Growth Rate (CAGR) [2] CAGR for three-years ended September 2013.

Moreover, removing government spending from the calculation of GDP conveys a very different story about

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Growth is Good

No one likes the uneasy feeling of the stock market going down. For some of us, the "Great Recession" of 2008 – 2009 is still fresh in our memories. Five years have passed since that low point in 2009 and it feels good to have gains in our portfolio. When we have robust and unexpected returns like last year, it gives us a chance to catch our breath.

There's no doubt that investing in the stock market sometimes feels like riding a rollercoaster, up one minute and down the next. We are grateful to be by your side through it all, helping you plan, build and protect your wealth.

During this time Siena Wealth Management has seen a lot of growth, thanks in great part to referrals from clients like you. Thank you for recommending us to your family and friends —there is no greater compliment you could give us.

As a result of our growth, we've recently hired Chris Cox as a financial advisor. We know he will be a great benefit to all of you and to our team.

It feels good to have the wind in our sails.

Growth is good!

Ron Howard-Managing Principal
Mike Demko-Senior Finacial Advisor
Mike Weakley-Senior Finacial Advisor
Chris Cox-Financial Advisor
Diem Pham-Executive Assistant

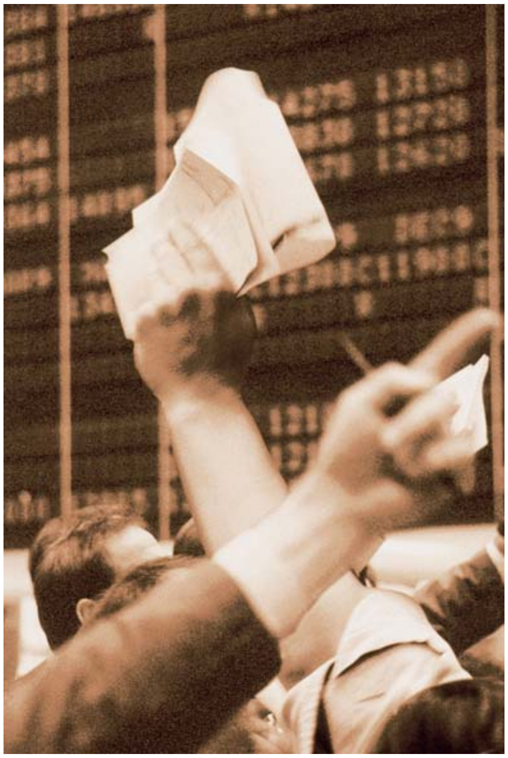
Don't Chase After The Market News

Did you read the newspaper today or check the news online? Invariably, the stock market will be heading up or down, with the movement triggered by anything from company earnings announcements to a change in economic indicators or even a political event such as the recent U.S. government shutdown. And, more often than not, financial pundits may respond by urging investors to buy or sell something.

But you can drive yourself crazy, if you haven't already, by making stock market decisions based on what just has occurred or what you think will happen next. In fact, chasing after the news is a common investment mistake. There are at least four good reasons to avoid this temptation like the plague:

1. The stock market usually moves ahead of the news.

There was no "all clear" signal that the severe stock market downturn of 2008-2009 had abated. But the market hit bottom on March 9, 2009, and embarked on a long, profitable climb even as other financial news remained dire. Typically, stocks move about six months ahead of economic developments, reflecting the collective knowledge, trends, and inclinations of investors. If you try to beat the market by reacting to the latest news, you'll probably be much too late to benefit.



2. You don't have all the necessary information.

Markets tend to move based on the decisions of mutual fund managers or professional analysts who monitor and interpret financial data for a living. They have a lot more information than you do, and they get it much sooner than you—and millions of others like you—who will hear it on television or find it on the Internet. That puts you at a decided disadvantage.

3. You can't believe all the hype.

In this electronic age, media reports are often prone to hyperbole, as the pressure to generate interest from a fickle public continues to increase. That could lead producers to overreact to news tidbits or sensationalize minor events. One small incident usually doesn't portend a complete economic collapse, so take reports of impending doom with a grain of salt. It isn't likely that the sky is falling!

4. Market timing is difficult, if not impossible.

To be successful at market timing, you have to be extremely skilled or lucky, or both. Over the long term, buying or selling based on what you hear or read almost never beats a consistent, methodical long-term approach. It's better to make investment decisions based on financial particulars rather than on instincts and hunches.

Building a diversified portfolio combining stocks, bonds, and other investments can help you progress toward your financial goals—and it can help you stop worrying about what you hear on the news. ●

Managing Your Tax Bracket Now Crucial

Four tax law changes that took effect in 2013 are driving high-income earners to manage their tax brackets more carefully.

1. A new top income tax rate for ordinary income of 39.6% (previously 35%) has been added for single filers with taxable income above $400,000 and joint filers above $450,000.

2. For investors who exceed those same thresholds, the maximum tax rate on long-term capital gain has increased from 15% to 20%.

3. A new 3.8% surtax applies to the lesser of "net investment income" (NII) or the amount by which modified adjusted gross income exceeds $200,000 for single filers and $250,000 for joint filers. The definition of NII includes capital gains and dividends, but not payouts from retirement plans and IRAs.

4. The tax benefits available for itemized deductions and personal exemptions are phased out for taxpayers above certain income limits.

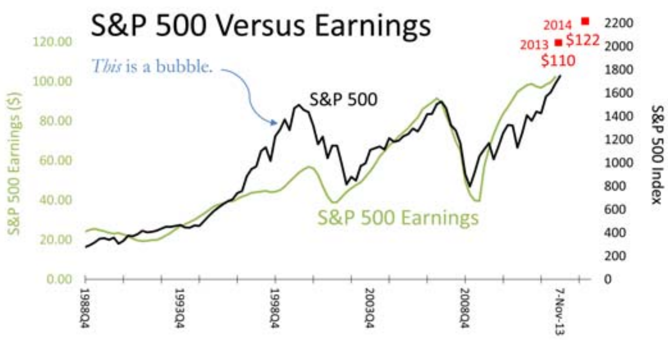
Faced with this changing tax landscape, you need to be especially vigilant to keep "bracket creep" in check. At the same time, it could make sense to realize year-end income up to the next bracket threshold. Here are several tax strategies to consider in this environment:

• Make the most of your capital gains and losses. If you've taken losses during the year, it could make sense to realize capital gains now, using those losses to offset extra income that could put you in a higher bracket or subject you to the 3.8% surtax. Or, if you have existing gains, taking capital losses could offset them and up to $3,000 of ordinary income.

• Convert a traditional IRA to a Roth IRA—but stagger the amount

Are Stocks Headed For Another Bubble?

Invented by the 2013 Nobel-prize-winning economist Robert Shiller, the Shiller PE is a widely-watched measure of the stock market's health, and it recently turned negative, indicating the U.S. stock market is overpriced and ripe for a fall. Should you worry?



Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates; Standard and Poor's for index price data through November 7, 2013 and actual earnings data through September 2013.

As the stock market was soaring to new highs just before the start of 2014, the Yale University professor's key barometer of the stock market value rose above 50%, indicating that stocks were overpriced. While disagreeing with a Nobel economic laureate's opinion on investing is an unenviable position, the negative signal from the Shiller PE is a statistical aberration, an anomaly caused by the recency of the worst financial crisis in generations.

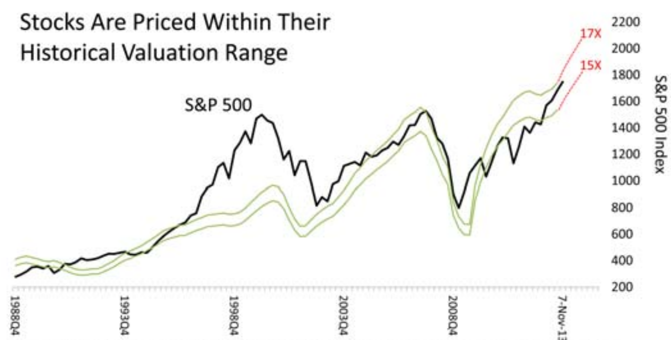
The Shiller PE uses a 10-year average monthly p-e ratio as the denominator in an equation measuring whether stocks are expensive. This period includes the 2008-2009 financial crisis, a once-in-78-year economic and financial occurrence. Including that once-in-a-lifetime event in a 10-year average PE calculation skews the numbers unrealistically toward the negative.

Stocks are actually trading at a reasonable level by most measures. While some of the financial talk shows on TV have been saying stocks are in a "bubble" or even overpriced, much evidence exists to the contrary.

To see what a stock-price bubble looks like, look at the figure above. It tracks the price of the Standard & Poor's 500 index — a measure of America's blue-chip companies — versus actual and projected corporate earnings on the 500 companies in the S&P 500 index. The gap between the black line, which represents stock prices, and the green line, which represents earnings, depicts the growth of the tech-stock bubble from 1997 to 1999. The correlation between the S&P 500 and stock prices broke down in the tech bubble. No such breakdown is occurring now.

Another key measure of whether stocks are overpriced is shown below. The two green lines represent the historical trading range of stocks during a benign inflation environment like we have been in for the past few years. The lower green line shows where stocks would have traded if investors had valued stocks at $15 for every dollar of profits on companies in the S&P 500 index, while the upper green line shows a multiple of 17 times earnings. You can see how the price of the S&P 500 shown in black became disconnected from corporate earnings.

What's it mean for stocks in 2014?



Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates; Standard and Poor's for index price data through November 7, 2013 and actual earnings data through September 2013.

The red lines at the end of the green lines show forecasted earnings for the last quarter of 2013 and 2014. Estimated 2013 and 2014 bottom-up S&P 500 earnings per share as of October 31, 2013 were $109.67 for 2013 and $122.06 for 2014. Past performance can never be taken as a guarantee of future results. However, if the consensus earnings forecast is accurate and nothing unexpected happens to derail corporate earnings, stocks would be dragged higher based on how investors valued stocks in recent months. As 2014 was about to begin, and with stocks trading at 15.9 times 2013 earnings, the price of the S&P 500 was well within its historical valuation norm and talk of a bubble seemed unwarranted. ●

you convert each year to avoid rising into a higher tax bracket. The converted amount is taxable as ordinary income, but it may pay off in the form of future tax-free distributions.

• Stay in a lower bracket by shifting taxable income to the younger generation. For instance, you might give dividend-paying stock to a child in a low tax bracket. Just keep in mind that under the "kiddie tax," unearned income above $2,000 received by a dependent child in 2013 generally will be taxed at your top rate.

• Reduce your taxable income by making charitable gifts. The tax law generally allows you to deduct the fair market value of donated property that you've held for more than a year. However, deductions for charitable gifts are among those that may be reduced for upper-income taxpayers. ●

Reminders On Your Beneficiary Choices

Quick: Who are the beneficiaries of your retirement plan, life insurance policies, and investment accounts? Many people don't remember whom they named as a beneficiary or are uncertain. But it's important to know, especially if your circumstances have changed since you completed the original paperwork.

You probably carefully considered whom to designate as beneficiaries of your financial accounts and life policies when you initially established them. But you may have shoved the documents into a drawer and forgotten all about them.

Suppose your family situation has changed. Maybe you have remarried and you have children from an earlier union. Do you still want your former spouse to inherit anything? Should your new spouse be named as a beneficiary? Aging, death, divorce, and other life-events, including the birth of a child or a job-switch, make it wise to periodically review beneficiary choices and ensure your assets go to the people you want to benefit most.

One reason it's so important to get beneficiary designations right is that when you name a beneficiary on your retirement accounts and life insurance policies, those assets will be transferred without going through probate or facing other complications. Moreover, the designations for financial accounts and insurance policies trump whatever it may say in your will. So, even if you change your will to cut out an estranged relative, that person still could benefit unless the beneficiary designations also are changed. And if there are discrepancies, the matter could end up in court—probably the last thing you would want.

Furthermore, getting the beneficiaries right may affect estate taxes. For instance, if you name your spouse as the beneficiary of your 401(k) and IRAs, those accounts won't be included in your taxable estate (although the assets eventually could be subject to estate tax when your spouse dies).

Another money-saving idea that might surface from reviewing your beneficiaries: If you have more than one child and intend to divide your IRA proceeds evenly, you may be able to reduce taxes owed by splitting your account. For example, if you have three children, you can split an IRA into three individual IRAs, naming one child as beneficiary of each new IRA. As a result, your children can take distributions from their inherited IRAs based on their longer individual life expectancies, not yours.

Finally, if you name a charity as an account beneficiary, the asset will pass to the charity tax-free. In addition, your estate will be entitled to a charitable deduction, which may reduce or eliminate tax liability.

For these and other reasons, it's crucial to get beneficiary designations right, and to revise them when necessary as your circumstances change. Going to the trouble of regularly reviewing your designations could be time well spent. ●

GDP Growth Data

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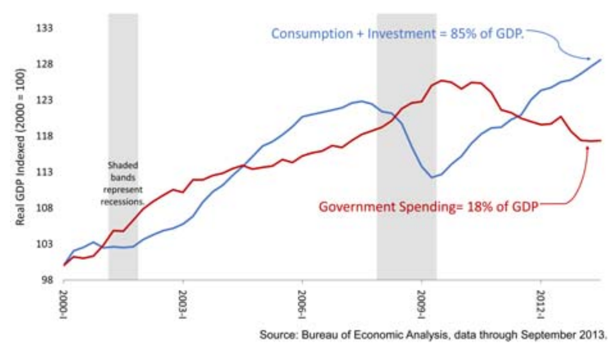
recent U.S. economic growth. Excluding government spending from the GDP formula, according to data compiled by Fritz Meyer Economic Research, an independent research firm, puts the rate of growth of the current economic recovery in line with the long-term economic growth rate since 1980.

From 1980 through 2008 the GDP grew at approximately 3.0%. However, the GDP growth rate over the three-year period ended September 30, 2013 has only been 2.1%, weak by comparison to the long-term trend. However, if you exclude government spending from the GDP calculation, the growth rate of 3.2% over the 33-year period is equaled by the growth rate in consumer spending and investment shown over the period since the economy recovery began three years earlier.



GDP is intended as a measure of economic output. Since measuring economic output is more difficult than measuring consumption, however, government consumption is used as a proxy for output. Consumption and output are thought to be interchangeable because they are so intertwined. That's arguably flawed because the government does not produce anything and sell it.

While debate over the merits of government spending is politically charged, the practical implication of including government consumption in GDP is that it has masked the underlying strength in the other components of GDP. Maybe this explains why stocks rose so sharply after the financial crisis despite what appeared to be a lackluster economic recovery. ●