SIENA
WEALTH MANAGEMENT, INC.

Five Great And Influential Years In Financial History

It was the sixth year -- and the sixth quarter -- in a row that stocks climbed higher -- a bull-market run so stunning that it is already assured to be talked about for at least a few generations to come.

The first half of 2014 marked the bull market's fifth anniversary. The most dramatic way to explain it: From the financial-crisis trough in stock prices to the S&P 500's intraday low of 666 on March 9, 2009 -- five years -- stocks are less than 2% shy of tripling!

Naturally, the bull's five-year anniversary spawned headline stories across all media questioning how much longer the good times could last. Only three out of the 23 bull markets since 1900 lasted six years or longer. The Standard & Poor's 500 stock index gained +4.7% in the second

quarter of 2014, soaring after a brief sell-off in early April on Ukraine-Russian tensions.

In the year that ended June 30, 2014, the S&P 500 gained +22.0%. At quarter's end, it had been more than three years since the stock market had last experienced a -10% correction. More and more of the talking heads on TV began predicting a drop in stock prices.

As with all strong bull markets, almost no one expected this to happen. Who would have predicted such strong returns on U.S. stocks when the economy was struggling to emerge from the worst financial crisis since The Great Depression of the 1930s?

It's anyone's guess, of course, when the next -20% bear market correction will come. What we do know is that key fundamental conditions that have accompanied bear markets of the past are not evident today. These are: restrictive Fed policy, signs of increased likelihood of recession, stock market overvaluation, and irrational investor exuberance.

As for bonds, the big surprise in the second quarter of 2014 was that bond yields, once again, did not start trending higher on news of the impending end of Quantitative Easing, as had been so widely expected. In fact, the forecasts for rising bond yields have been very substantially off the mark for over three years, ever since well-known bond fund

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Our Investment Committee and You

One of the most important functions Siena Wealth Management performs in the prudent management of your portfolio is the selection of appropriate investment strategies and opportunities in keeping with our investment philosophy. Our Investment Committee defines investment objectives, determines investment strategies and monitors our investment solutions to meet both your current and future needs.

Standing members of the committee are Ron Howard, Mike Weakley, Mike Demko and Chris Cox. Various outside experts are invited each meeting, including Chartered Financial Analysts (CFA), portfolio strategists, investment research and data analysts. The purpose is to evaluate our current strategies, compare performance to respective benchmarks, debate new investments and discuss potential opportunities. Topics also include market overview, inflation, interest rates, global conflicts, volatility and new academic research.

During our meetings with you, we discuss your current allocation, review performance and include topics from our most recent investment committee meeting.

The goal is to use the brightest minds, latest research and best tools to help guide the investment decisions in each of your customized portfolios.

"Researching tomorrow's solutions today".

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

Keeping A 529 Plan Rolling Along

If you were thinking ahead, you may have set up a tax-advantaged Section 529 plan for your first child at an early age. Once your kid is ready for college, you'll reap the rewards of your foresight.

But what happens when your son or daughter graduates? If there's still money in the plan, your tax savings don't have to stop there. If you have other children, you could designate one of them to be next in line as the 529 plan beneficiary, and then choose another and another . . . possibly even extending the plan's benefits to your grandchildren!

Section 529 plans, sponsored and operated by individual states, encourage families to set aside funds for future education expenses of the younger generation. As long as certain requirements are met, the money invested in the plan can grow without any erosion by taxes; and distributions that go to pay qualified college expenses—including tuition, fees, books, supplies, equipment, and room and board for full-time students—are completely tax-free.

There are two main types of plans: prepaid tuition plans and college savings plans. A prepaid tuition plan enables you to lock in rates at an in-state public college, whereas a college savings plan gives you more flexibility—the money can be used at a public or private college of your choice—but doesn't offer guarantees.

Keep in mind that it doesn't matter which state's college savings plan you choose, because no matter where it's set up, you can choose where to spend money from the account. But there could be an advantage to using your home state's plan. More than half of the 50 states offer a state tax deduction or credit for Section 529 plan deposits made by residents.

Now suppose your daughter is finishing college and your son is poised to attend next fall. Assuming some funds are left in the account, you can simply switch the beneficiary designation for the 529 plan to the younger child. Typically, a plan will allow one such change each year. If a younger child will enter college before the older one graduates, you might want to set up a separate account.

Although a plan can continue indefinitely, with your grandchildren eventually becoming beneficiaries, it terminates when the latest beneficiary reaches age 30. Of course, if there's a gap—say, your youngest child turns 30 and you have no grandchildren—you still can set up a new plan for a grandchild in the future.

A final bonus: There's a special gift tax break for 529 plans. Not only are transfers to 529s considered gifts that qualify for the annual gift tax exclusion ($14,000 in 2014), you can make up to five years worth of contributions in one year. And your spouse can do the same. Together, you could transfer up to $140,000 into a child's or grandchild's 529 entirely exempt from gift tax. ●

Social Security: Taxes In And Out

It seems like the IRS has you coming and going on Social Security. While you are working for a living, you must pay taxes into the system to provide benefits for current retirees. Then, when you finally retire, you're entitled to receive retirement benefits but they might be subject to tax as well.

Don't confuse the two taxes. The Social Security tax you pay as an employee is a payroll tax that applies to wages, commissions, and other compensation as part of the FICA tax. An employee's combined FICA rate for Social Security and Medicare in 2014 is 7.65% on the first $117,000 of compensation and 1.45% (Medicare only) above that. But the tax that may apply to Social Security benefits you get in retirement is a federal income tax that is reported along with other items on Form 1040. It's more complicated than the payroll tax.

Here's how it works: You're liable for tax on Social Security benefits if your provisional income (PI) exceeds certain thresholds in the tax law. For this purpose, PI is the total of (1) your adjusted gross income (AGI), (2) your tax-exempt interest income (for example, from municipal bonds), and (3) one-half of the Social Security benefits you received. For example, if the combined AGI of you and your spouse is $100,000 and you collect $5,000 in municipal bond income and $20,000 in Social Security benefits, your PI is $125,000 ($100,000 + $5,000 + $20,000).

There are actually two thresholds for computing the tax on Social Security benefits.

Threshold 1: For a PI between $32,000 and $44,000 ($25,000 and $34,000 for single filers), you're taxed on the lesser of one-half of your benefits or 50% of the amount by which PI exceeds $32,000 ($25,000 for single filers).

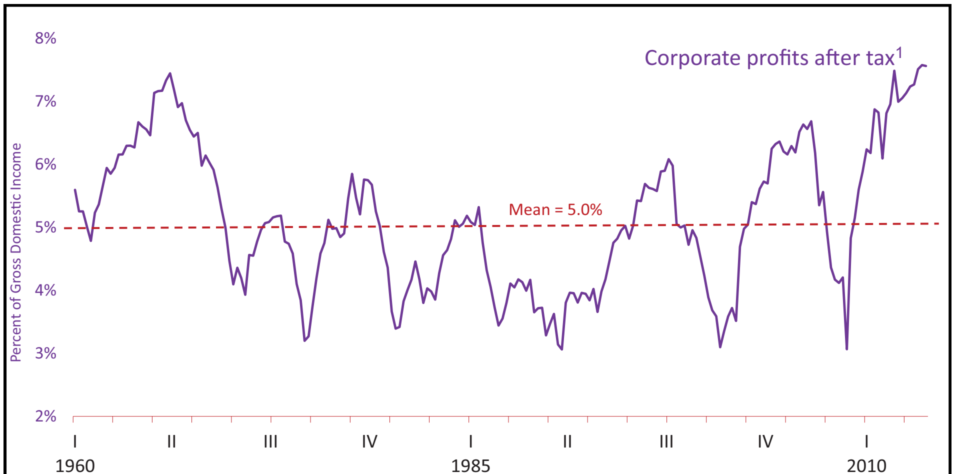
Threshold 2. For a PI greater than

Will The Driver Of The Bull Market End?

Ultimately, what drives stock prices is profits. Profit margins in recent years expanded beyond historic norms, leading to speculation lately about what might happen if margins were to revert to their long-term mean. It almost certainly would be a disaster for stocks. When you look at the facts, however, it seems unlikely profit margins will come under pressure anytime soon. To the contrary, economic fundamentals indicate that profit margins could continue to expand.

Profit margins have expanded by three percentage points since the 1970s, according to Fritz Meyer Economic Research. The share of gross domestic income that goes to compensation of employees, or labor costs, declined by 6½-percentage points. Meanwhile, the share of domestic income going to pay for fixed capital increased by 3%. The difference—3.5 percentage points of U.S. gross domestic income—has been accrued by corporations, pumping up their profit margins. An historic replacement of labor with capital, which has been an astounding period for productivity growth, has unfolded over the last four decades.

And that's not the only factor causing an expansion of profit margins in corporate America. The other reason profit margins have grown fatter—and provided a bullish backdrop for investors in stocks—is that net interest expense has declined by four percentage points, which likewise boosted corporate profit margins by four percentage points. On top of that, a gradual decline in corporate income taxes helped to boost profit margins further. Altogether, this confluence of economic circumstances created an economic and investment climate propelling profit margins to record levels. Better still for investors, these fundamental factors are unlikely to reverse, much less suddenly collapse.



[1] Corporate profits after tax with inventory valuation and capital consumption adjustments.
Source: U.S. Department of Commerce, Bureau of Economic Analysis. Data through 2013.

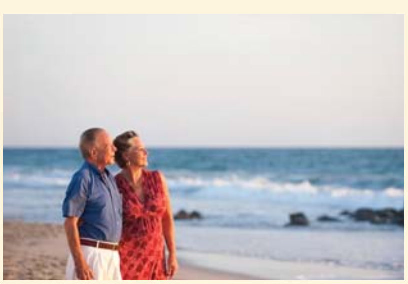
The drivers of profit-margin growth is that companies are realizing that lowering labor expense by buying capital is a tradeoff well worth making, and the trend is accelerating. While these broad trends cause massive changes in people's lives and families, they are good overall for the economy in the long haul.

The relentless substitution of capital for labor over the last few decades can continue even as the economy makes gains in employment. In fact, unemployment, the stubborn problem hampering the economy since The Great Recession of 2008-2009, has at long last been settling toward its long-term norm of 4%.

At the same time, interest expenses are unlikely to rise sharply anytime soon. "With inflation low and some slack still present in the job market, sharply higher interest rates are unlikely right around the corner," says Fritz Meyer, an independent economist. Meanwhile, pressure is mounting on Congress to lower corporate taxes in order to bring U.S. corporate income tax rates in line with those of other developed nations. This sets the stage for the continued expansion in profit margins, a bright spot in a complicated and often frightening world for investors.

And that's how you should think of this good news: as a bright spot in a complex and unpredictable world that could change anytime. Assuming that the world remains largely the same, however, the news on profit margins is good for long-term stock investors. ●

$44,000 ($34,000 for single filers), you're taxed on 85% of the amount by which PI exceeds $44,000 ($34,000 for single filers) plus the lesser of the amount determined under the first tier or $6,000 ($4,500 for single filers). Silver lining: You'll never owe tax on more than 85% of your total benefits.



These two thresholds aren't indexed annually for inflation. If your PI exceeds a relatively low level of $32,000 ($25,000 for single filers), you'll owe the tax year in and year out. And you'll get hit with the higher tax rate every year that your PI exceeds just $44,000 ($34,000 for single filers).

What can you do about it? You might lower your PI by harvesting capital losses to offset capital gains or deferring taxable income to the following year. But remember that the income from tax-free municipal bonds counts against you in the calculation of PI. Consider all the relevant factors, including the potential tax implications for Social Security benefits, in your investment decisions. ●

FBAR Penalty Can Run Into Millions

No matter how old you are, the IRS isn't likely to show you any mercy, especially if you're trying to hide funds in offshore accounts without paying the required taxes. This has been demonstrated, in dramatic fashion, in a case involving an 87-year-old retiree who earned a fortune as a specialty-glass importer. Carl Zwerner, who lives in Florida, has been hit with penalties equaling 150% of the value of his foreign bank account, for a staggering total of $2.24 million.

Over the past decade, the IRS has ramped up its efforts to uncover tax cheats who are stashing cash in foreign accounts that were protected previously by privacy laws. Significantly, U.S. taxpayers are required to file a Report of Foreign Bank and Financial Accounts (FBAR). The penalty for failing to file the FBAR can equal 50% of the value of the unreported assets.

The IRS has joined forces with the Justice Department in using this weapon to ferret out tax cheats. Dozens of high-profile cases during the past few years have resulted in fines reaching into the millions.

The threat of paying excessive penalties has driven some tax evaders into an IRS-sponsored amnesty program. Under the program, taxpayers must fork over back taxes, fines, and penalties, in addition to providing information to the IRS about their foreign accounts. Since the program was authorized in 2009, more than 43,000 taxpayers have paid about $6 billion into government coffers.

Zwerner was a unique case. He said he didn't know he had to file FBARs for his account at ABN Amro Group N.V., one of the Netherlands' largest banks, until 2008. At that time, he couldn't enter the amnesty program due to income limits, so he amended his 2008 return. The IRS went after him for failing to file FBARs for four years—from 2004 through 2007—and sought the 50% penalty for each year. The jury in his trial handed down a verdict for the first three years.

For 2004, Zwerner's account was valued at $1.48 million; $1.49 million for 2005; and $1.55 million for 2006. The FBAR penalties assessed were $723,762, $745,209, and $772,838, respectively, adding up to a total of $2.24 million.

In another publicized recent case, H. Ty Warner, the billionaire founder of the Beanie Babies toy empire, pleaded guilty to evading taxes on assets of up to $107 million hidden in Swiss bank accounts. Warner ended up paying an FBAR penalty of $53.6 million.

The message is clear: The IRS will show no quarter. However, at least the income limits that barred Zwerner and others from entering the amnesty program have been removed, giving some wealthy U.S. taxpayers another option. ●

Five Great Financial Years

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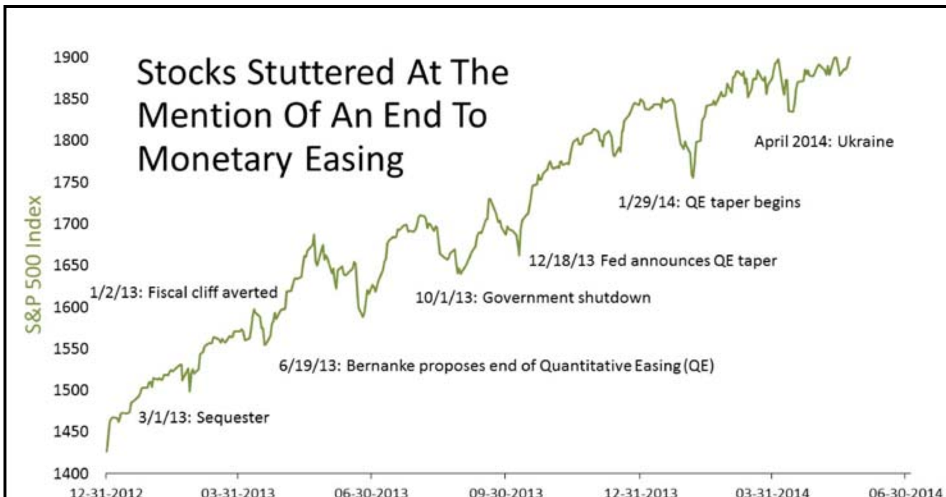
manager Bill Gross proclaimed in March of 2011 that yields are likely to go "higher, maybe even much higher" upon the end of QE2.

A big worry all quarter that caused stock some market jitters was the Federal Reserve's talk of "tapering," the winding down of the government stimulus program officially dubbed "quantitative easing (QE)." Under QE, the Fed had purchased $3 trillion of U.S. Treasury and Agency bonds, pushing bond yields down to stimulate the housing market, principally, and the economy more broadly. While stocks not long ago had sputtered at the mere mention of Fed tapering, by the end of the second quarter the market seemed to accept that a world without QE just might be okay. Economic data, meanwhile, continued to improve all through the quarter. ●



Source: Standard and Poor's, through July 3, 2014. Past performance does not guarantee your future results.