



**Smith, Mayer & Liddle**  
a wealth advisory group  
2315 N. Susquehanna Trail  
York, PA 17404  
717-779-2769  
800-999-0503  
smithmayer&liddle@janney.com  
www.smithmayerliddle.com

#### Summer Greetings!

Although most of us tend to remember horrendous weather, we tend to forget the more normal days in which the weather is uneventful. Which do you remember better – a bright sunny day with a gentle breeze blowing, or the day a tornado blew into town? Similarly, many recall sharp market corrections better than the smaller, more normal market moves that increase their assets over time. Short term market corrections, although unpleasant, tend to be rather frequent and common. Although the recent market “weather” has been somewhat overcast, don’t let temporary fluctuations deter you from a carefully developed long term investment strategy. Rain or shine, please know that we are readily available to address any needs or concerns you may have.

Best wishes for an enjoyable summer, complete with pleasant breezes and sunny skies!

#### 3rd Quarter 2011

Crisis Investing: Keeping Your Head

Tax Advantages of Homeownership

The New Face of Socially Responsible Investing

Can I make charitable contributions from my IRA?



# INVESTING PERSPECTIVES

## Crisis Investing: Keeping Your Head

When a crisis creates uncertainty, markets often become volatile, especially when the scope of the disaster isn’t clear. A crisis is like Janus, the Roman god with faces that looked forward and back. For some investors, it may represent a threat; for others, it may spell opportunity. Not every crisis requires a reaction; sticking to a long-term plan is still the best strategy for most people.

Here are some examples of factors that investors sometimes overlook when considering which face of Janus to focus on during a crisis.

### Watch the global supply chain

Companies and economies increasingly operate in a global context. The more heavily an industry or company relies on global partners, the more it might be affected by crisis conditions. Think not only about companies that are affected directly by turmoil, but about other companies that rely on them.

For example, China has become in many ways the world’s factory floor, and many information technology services are now outsourced to India. How would a crisis in either country affect global supply chains or communications infrastructure? Might competitors not affected by the crisis pick up at least some of the slack? How might a particular industry be hit by shortages of parts or raw materials? Is a large multinational so geographically spread out that a crisis in one part of the world may have little impact on its overall operations? Oil is perhaps the most obvious example of how a crisis can affect global supply chains. A perceived threat to supplies can affect prices of other assets.

### Consider currency fluctuations

Currency fluctuations are another factor to consider. Crises in one part of the world can affect that region’s currency. That in turn can affect companies located elsewhere. The 2010 panic over potential default by several eurozone countries strengthened the dollar, and though that may sound like good news, a stronger dollar can hurt U.S. exports.

Currency issues are also important because of what’s called the “carry trade.” This happens

when investors use money from a country where interest rates are relatively low--the Japanese yen and the U.S. dollar have been prime examples in recent years--to invest elsewhere at a better rate of return. However, if the cheaper currency suddenly increases in value, the carry trade can reverse as investors put their capital back into the so-called funding currency. That can affect assets denominated in other currencies. For example, the yen soared as investors anticipated that money would be repatriated to deal with Japan’s earthquake/tsunami/nuclear disaster. Some investments denominated in other currencies suffered when investors sold them to invest in yen.

### Think both long term and short term

Nothing lasts forever. A crisis could create opportunities that eventually peter out, or challenges that later seem trivial. Or it could have little short-term impact but mean profound change over a period of years. When considering whether a crisis represents a challenge or an opportunity, think both short term and long term.

A crisis with potentially long-term opportunities or harmful consequences may mean you may be able to take more time with a decision. If the window of opportunity is smaller or the potential devastation more short term, remember that there are alternatives to an all-or-nothing approach. For example, you could take a small position and see how your investment thesis plays out before committing more. Even if the window of opportunity slams shut, new opportunities often emerge during even the worst of times; missing one now doesn’t mean you won’t find others later. If you’re worried about a potential downturn, you could use other investments to hedge your exposure while retaining a long-term stake, or take profits to protect part of your holdings but leave some money invested in case the crisis is short-lived.

**Note:** *Any investment approach involves some type of risk, including the possible loss of principal, and there’s no guarantee any strategy or technique will be successful.*



### **Mortgage interest deduction threatened?**

*Recent discussions relating to reducing the budget deficit have cast a spotlight on itemized deductions, including the mortgage interest deduction. Could the mortgage interest deduction ultimately be eliminated? That seems unlikely, but elimination or reduction of the deduction has remained part of the ongoing debate, and was included among the recommendations contained in the National Commission on Fiscal Responsibility and Reform's December 2010 report.*

**According to the U.S. Census Bureau, the estimated homeownership rate in the United States at the end of 2010 was 66.5% (Source: U.S. Census Bureau, Housing and Household Economic Statistics Division).**

## **Tax Advantages of Homeownership**

Although tax considerations probably aren't the motivating force behind most home purchases, the tax advantages associated with homeownership are significant enough that they may factor into the decision process. Here's a quick review of federal tax benefits available.

### **The mortgage interest deduction**

If you itemize deductions on Schedule A of Form 1040, you're generally able to deduct the interest you pay on debt resulting from a loan used to buy, build, or improve your principal residence, provided that the loan is secured by your home (the ability to deduct mortgage interest also generally applies to second homes, though special rules apply if you rent the home out for part of the year). Interest you pay on up to \$1 million in mortgage debt (\$500,000 if you're married and file a separate federal income tax return) can qualify for the deduction (different rules may apply if you incurred the debt prior to October 14, 1987).

Interest on qualifying home equity debt (basically, debt on a loan secured by equity in your main or second home that is not used to buy, build, or improve your home) of up to \$100,000 (\$50,000 for married individuals filing separately) is generally deductible regardless of how the loan proceeds are used. Note, however, that if you're subject to the alternative minimum tax (AMT), the AMT calculation doesn't allow a deduction for interest on debt that's not used to buy, build, or improve your home.

Qualified mortgage insurance premium payments made prior to 2012 can be deducted in the same manner as qualified mortgage interest, provided the mortgage insurance contract is issued after 2006. The deduction is, however, phased out for those with adjusted gross incomes exceeding \$100,000 (\$50,000 for married couples filing separate federal income tax returns).

### **Deduction for real estate property taxes**

If you itemize deductions, you can also generally deduct the real estate taxes that you pay on your property in the year that you pay them to the taxing authority. If you pay your real estate taxes through an escrow account, you can only deduct the real estate taxes actually paid by your lender from the escrow account during the year. For purposes of calculating the AMT, however, no deduction for state and local taxes, including any real estate tax, is allowed.

### **Energy tax credit**

Though not as generous as it has been the last two years, a credit is available to individuals

who make energy-efficient improvements to their homes. You may be entitled to a 10% credit for the purchase of qualified energy-efficient improvements, including a roof, windows, skylights, exterior doors, and insulation materials. Specific credit amounts may also be available for the purchase of specified energy-efficient property: \$50 for an advanced main air circulating fan; \$150 for a qualified furnace or hot water boiler; and \$300 for other items, including qualified electric heat pump water heaters and central air conditioning units.

There's a lifetime credit cap of \$500 (\$200 for windows), however. So, if you've claimed the credit in the past--in one or more tax years after 2005--you're only entitled to the difference between the current cap and the total amount that you've claimed in the past. That includes any credit that you claimed in 2009 and 2010, when the aggregate limit on the credit was \$1,500.

### **Capital gain exclusion**

If you sell your principal residence at a gain, you may be able to exclude some or all of the gain from federal income tax. Generally speaking, capital gain (or loss) on the sale of your principal residence equals the sale price of the home less your adjusted basis in the property. Your adjusted basis is the cost of the property (i.e., what you paid for it), plus amounts paid for capital improvements, less any depreciation and casualty losses claimed for tax purposes.

If you meet all requirements, you can exclude from federal income tax up to \$250,000 (\$500,000 if you're married and file a joint federal income tax return) of any capital gain that results from the sale of your principal residence. In general, this exclusion can be used only once every two years. To qualify for the exclusion, you must have owned and used the home as your principal residence for a total of two out of the five years before the sale. If you fail the two-out-of-five-year test, you might still be able to exclude part of your gain if your home sale is due to a change in place of employment, health reasons, or certain other unforeseen circumstances.

It's important to note that special rules apply in a number of circumstances, including situations in which you maintained a home office for tax purposes or otherwise used your home for business purposes. Special rules may also apply if you are a member of the uniformed services.



*Though past performance is no guarantee of future results, you should make sure your expectations (both financial and social) are realistic and in line with what you hope to achieve.*

## The New Face of Socially Responsible Investing

Feeling strongly about the societal benefit or harm your money might be supporting doesn't mean you have to forgo pursuing a return on your investments. Socially responsible investing allows you to further both your own economic interests and a greater good.

The concept of putting your money where your mouth is first gained widespread attention during the 1970s, when such highly charged political issues as the Vietnam War and apartheid in South Africa led some investors to try to make sure their money didn't support policies that were counter to their beliefs. Since then, a wide variety of investment products, such as socially conscious mutual funds, have been developed to help people invest in ways consistent with a personal philosophy. However, individuals aren't the only ones to adopt responsible investing principles; many colleges and universities, government pension and retirement funds, and religious groups do so as well.

There are many approaches to what may also be known as mission investing, double- or triple-bottom-line investing, ethical investing, socially conscious investing, green investing, sustainable investing, or impact investing.

### Screening potential investments

This is perhaps the best known aspect of socially responsible investing: evaluating investments based not only on their finances but on their social, environmental, and even corporate governance practices. The process may be negative, eliminating companies whose products or actions are deemed contrary to the public good. Examples of companies that are frequently excluded from socially responsible funds are those involved with alcohol, tobacco, gambling, defense, and those that contribute to environmental pollution or that have significant interests in countries considered to have repressive or racist governments.

However, as socially responsible investing has evolved, the screening process has become increasingly positive, using screens to identify companies whose practices actively further a particular social good, such as protecting the environment. For example, green technology that can help address environmental problems has attracted the interest of many investors who see not only a social good but an opportunity for profit.

### Shareholder activism

Both individual and institutional shareholders have become increasingly willing to pressure corporations to adopt socially responsible practices. In many cases, having a good social

record can enhance business, making a company more attractive to investors. Shareholder advocacy can involve filing shareholder resolutions on such topics as corporate governance, climate change, political contributions, environmental impact, and labor practices. Such activism got a boost from the SEC when it adopted the so-called "say on pay" rule as part of the Dodd-Frank financial reforms. As of April 2011, companies over a certain size must allow shareholders a vote on executive pay at least once every three years. Though the vote is nonbinding, it could give institutional investors a stronger hand in advocating for other interests.

### Community investing

Still another approach involves directing investment capital to communities and projects that may have difficulty getting traditional financing. Investors provide money that is then used to make or guarantee loans to organizations that help traditionally underserved populations with challenges such as gaining access to affordable housing, finding jobs, and receiving health care.

### Impact investing

A recent development focuses not only on investment returns and social benefit, but on measuring and managing performance in both of those arenas. So-called "impact investing" aims not only to minimize negative impact and enhance social good, but to do so in a way that maximizes efficient use of the resources involved, using business-world methods such as benchmarking to compare returns and gauge how effectively an investment fulfills its goals. In fact, some have made a case for considering impact investing an emerging alternative asset class, since such investments may not be highly correlated with traditional assets such as stocks or bonds.

### Know your goals

When investing for the greater good, make sure your expectations are clear and realistic. "The public good" may be defined differently by every investor. Also, many socially responsible funds achieve solid financial returns; others may not.

**Note:** Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which can be found in the prospectus available from the fund; read it carefully before investing.



Janney Montgomery Scott LLC Financial Advisors are available to discuss the suitability and risks involved with various products and strategies presented. We will be happy to provide a prospectus, when available, and other information upon request. Please note that the information provided includes reference to concepts that have legal, accounting and tax implications. It is not to be construed as legal, accounting or tax advice, and is provided as general information to you to assist in understanding the issues discussed. Neither Janney Montgomery Scott LLC nor its Financial Advisors (in their capacity as Financial Advisors) give tax, legal, or accounting advice. We would urge you to consult with your own attorney and/or accountant regarding the application of the information contained in this letter to the facts and circumstances of your particular situation.

Janney Montgomery Scott LLC, is a full-service investment firm that is a member of the NYSE, the FINRA and SIPC.

## Ask the Experts



### Can I make charitable contributions from my IRA?

Yes, if you qualify. The law authorizing "qualified charitable distributions," or QCDs, has recently been extended through 2011.

You simply direct your IRA trustee to make a distribution directly from your IRA (other than a SEP or SIMPLE) to a qualified charity. You must be 70½ or older, and the distribution must be one that would otherwise be taxable to you. You can exclude up to \$100,000 of QCDs from your gross income in 2011. If you file a joint return, your spouse (if 70½ or older) can exclude an additional \$100,000 of QCDs in 2011. But you can't also deduct QCDs as a charitable contribution on your federal income tax return--that would be double dipping.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to take from your IRA in 2011, just as if you had received an actual distribution from the plan. However, distributions that you actually receive from your IRA (including RMDs) that you subsequently transfer to a charity cannot qualify as QCDs.

For example, assume that your RMD for 2011 is \$25,000. In June 2011, you make a \$15,000

QCD to Qualified Charity A. You exclude the \$15,000 of QCDs from your 2011 gross income. Your \$15,000 QCD satisfies \$15,000 of your \$25,000 RMD. You'll need to withdraw another \$10,000 (or make an additional QCD) by December 31, 2011, to avoid a penalty.

You could instead take a distribution from your IRA and then donate the proceeds to a charity yourself, but this would be a bit more cumbersome, and possibly more expensive. You'd include the distribution in gross income and then take a corresponding income tax deduction for the charitable contribution. But the additional tax from the distribution may be more than the charitable deduction, due to IRS limits. QCDs avoid all this by providing an exclusion from income for the amount paid directly from your IRA to the charity--you don't report the IRS distribution in your gross income, and you don't take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.