The Light

Fall 2014

A free quarterly publication of Lighthouse Wealth Management, Inc. Volume 4, Issue 4

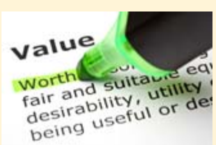
Value Investing

By Tim Rowsey, CPA, Investment Advisor Rep.

There are many strategies and approaches that may be used when it comes to investing. One philosophy which we believe is very important, and which has been promoted by many famous and successful investors, is the concept of value investing.

The basic concept of value investing is to buy a security that appears to be underpriced by some form of fundamental analysis. This could be calculated based in the company's book value, or it may be seen in a low price-to-earnings (PE) ratio or low price-to-book ratio. A simplistic way to say this would be to buy stocks when they are "on sale".

One of the most outspoken proponents of this philosophy is Warren Buffett, who has parlayed this approach into billions of dollars of returns. The concept of value investing is to buy a stock at less than its intrinsic value. Buffet called this "finding an outstanding company at a sensible price." Ben Graham, a professor at Columbia Business School, first introduced some of these concepts in his book *The Intelligent Investor,* first published in 1949. He put forth the idea of buying a security with a "margin of safety." This recommendation of purchase of a stock below its tangible book value provides a safety net if the stock were to decline.



An example with a few stocks might help make this concept clearer. Let's say that a value manager projects the intrinsic value of Company A at $40, while it is currently trading at $35. He also projects the intrinsic value of company B at $30, while it is currently trading at $31. Both companies are solid stable companies with good future earning potential. With (continued on page 2)

Update on Estate Tax Rules

By Tim Rowsey, CPA/ Investment Advisor Rep.

It has been said that the only sure things in life are death and taxes. To make things even worse, after death, governments often tax the assets of those who pass away and take a portion of their assets after they are gone. These taxes are known as estate taxes and are the tax on the value of property transferred at death.

Fortunately, there have been several major changes in the rules relating to estate taxes over the last few years. This has made a significant change in the need for planning, and to the number of people who are even impacted by any estate tax at all.

For residents of Ohio, the Ohio Legislature provided tremendous relief when they repealed the Ohio estate tax effective January 1, 2013. The effect of this repeal is that there is no estate tax on estates of individuals who die on or after January 1, 2013. Prior to this time a 6% rate was in effect for estates of more than $338,333 and less than $500,000. A 7% rate applied to estates over $500,000.

On the federal level there have also been some extremely positive changes. For federal estate tax purposes, the tax is levied on the combined gross assets and prior taxable gifts. These taxable gifts would be those in excess of the $14,000 annual exclusion amount. For 2014, the total amount of assets and prior taxable gifts would need to exceed $5,340,000 before any estate tax would be levied. This is a significant increase in amount from several years ago. Ten years ago the federal amount would only have been $1,500,000.

The combination of these law changes has had a very positive impact in reducing the number of people who are subject to estate tax. For an Ohio resident, the practical implication of the current law is that no federal or state estate tax would be due unless an individual has a combined (continued on page 2)

Plan (continued from page 1)

all else equal, the value investor would choose to purchase company A since it is trading for less than the intrinsic value. This provides some safety if the market declines for other reasons not related to the specific performance of the company.

Several mutual funds which we recommend are led by managers with a strong value orientation. Charles de Vaulx, formerly with First Eagle Global and now with IVA Worldwide, is a noted value investor. Chuck Akre of Akre Capital Management, and Clyde McGregor of Oakmark Equity and Income Funds are two other managers who base much of their investment decisions on a value approach.

Value investors tend to be less concerned with current economic events or political upheaval. While these factors may have some short term impact on the market, they believe that ultimately the underlying value of the company in which they invest will prove out in long term value.

One of our core tenants in working with investments is always to preserve clients assets first, and then to grow them at a reasonable rate. The value investing concept fits in nicely with this approach and historically has done well for many investors. ■

Estate Tax (continued from page 1)

estate and prior taxable gifts in excess of $5,340,000. For a married couple, the amount is doubled to $10,640,000.

Needless to say, this means that for the majority of Ohio residents, there would be no estate tax at all at the time of their passing.

For individuals or couples who exceed these threshold amounts, there may still be some opportunities for estate planning. In addition, for individuals who won't have any estate tax due at their death, there can be other planning opportunities to avoid probate, or protect assets through other planning strategies. If you are interested in discussing your specific situation please give us a call. ■

Disclosure Statement

A copy of our Part 2 of Form ADV: Firm Brochure, which provides information about the qualifications and business practices of Lighthouse Wealth Management is available upon request. To request a copy contact Cheri Smeltzer at:

(419)496-0016 or csmeltzer@lightwealth.com

The Importance of Beneficiaries

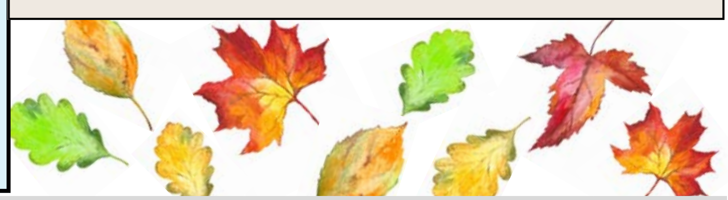
By Tim Rowsey, CPA, Investment Advisor Rep.

One of the important decisions we all must make at some point in our lives is what will happen to assets that are left after we are gone. This decision can be handled in many ways. It can be handled through a will, through a trust, by naming beneficiaries on some types of accounts, or by using a POD (payable on death) or TOD (transfer on death) titling. If you add beneficiaries, or POD or TOD titling to investment and bank accounts, your assets go directly to the person you name when you pass away, avoiding the legal process and cost of probate. If you do not clearly state your wishes, the state may end up deciding what happens to your assets.

The most common type of designation used on 401(k) and IRA accounts is the naming of a beneficiary. Any person, trust or charitable organization can be named as a beneficiary of these accounts. It is possible to name both primary and contingent beneficiaries. The primary beneficiary is the person or persons that the account would transfer to in the event of the death of the original account holder. If all primary beneficiaries are not living, then the account would flow through to the contingent beneficiaries. If no beneficiaries are named or all are deceased, the account, by default, would go into the estate of the account holder.

The most common naming which we see for married persons is to name the spouse as primary beneficiary, and then to name children as contingent beneficiaries. Single individuals often name children, siblings, charities or other family members. Multiple primary beneficiaries may be named, and a designated percentage must be allocated to each beneficiary. These must total 100% for all primary beneficiaries. In the same way, multiple contingent beneficiaries can also be named with their allocations totaling 100%.

A legal term that is used in association with beneficiary decisions is "per stirpes." This is a Latin term that literally means "by branch." This is a method of dividing property of the deceased individual. Under this type of designation, a child of a deceased parent who was named as a

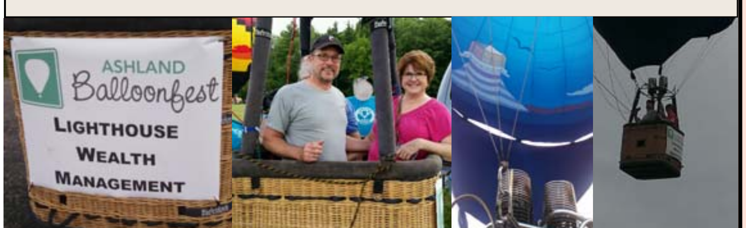


beneficiary would receive the share that the parent would have received. An example might make this clearer. John, the account owner, has two children, Mary and Julie. Both Mary and Julie have two children, as well (John's grandchildren). John has designated Mary and Julie as his primary beneficiaries with a 50% allocation to each. He has not named any contingent beneficiaries and has not used a per stirpes designation as a part of his beneficiary form. If Mary passes away before John he would only have one living beneficiary, his daughter Julie. She would inherit 100% of his account. If John had used a per stirpes designation, then the 50% that Mary would have been entitled to would flow to her two children, who would inherit her 50% even though she is deceased.

It is very important to make sure that your beneficiary designations accurately reflect your current wishes. Important life events such as death of a beneficiary, birth of new children or grandchildren, marriage or divorce could alter the flow of what was originally intended. Changing or naming new beneficiaries is very simple, and is normally a matter of signing a new form to indicate your desires.

In addition to naming a beneficiary on a retirement account, a TOD (transfer on death) form can also accomplish the same thing on a brokerage or checking or savings account. It is also possible to name multiple primary and contingent beneficiaries on this type of titling. This also has the added benefit of keeping these assets out of probate and avoiding the legal fees associated with probate.

If you would like to review your current beneficiary information on any accounts we currently manage for you, please call so we can make sure your wishes are accurately documented. ■



Cheri and her husband, Ed, enjoyed a ride in the balloon we sponsored at the 2014 Ashland Balloonfest.

Market Recap

How the major indices performed in the 3rd Quarter 2014

DOW JONES INDUSTRIAL AVERAGE
3rd Quarter return 1.3% YTD return 2.8%

S & P 500 COMPOSITE
3rd Quarter return 0.6% YTD return 6.7%

RUSSELL 2000
3rd Quarter return -7.8% YTD return -5.3%

BARCLAYS AGGREGATE BOND
3rd Quarter return 0.2% YTD return 4.1%

Market Update

By Tim Rowsey, CPA
Investment Advisor Rep.

The third quarter was quite volatile for equities, and ended on a down note.

During the third quarter the Dow Jones Industrial average had five consecutive days of triple-digit point swings. This had not happened in over a year. The Dow did manage to eke out a small 1.3% gain for the quarter, but is only up 2.8% for the year. The broader market, as represented by the S & P 500, showed an even smaller quarterly gain of 0.6%. Small cap stocks, as represented by the Russell 2000, were down significantly for the quarter with a 7.8% loss. The Federal Reserve stimulus is coming to an end, as has been anticipated for a number of months. In contrast, at the same time, the European Central Bank and the Bank of Japan are loosening their monetary policy.

Bonds were flat for the quarter.

The Barclays aggregate Bond index increased by 0.2% for the quarter. In contrast, PIMCO's flagship Total Return bond fund lost 0.6% for the quarter. In a shock to many, Bill Gross, the founder and manager of the PIMCO funds for 27 years, suddenly announced his departure from PIMCO and a move to rival Janus.

Market conditions are volatile as we head into the fourth quarter.

While October can be a volatile month, typically the November and December months find potential for some additional growth in the market as we close out the year. Corporate profits continue to be strong. Positive employment and economic growth may be an indicator of a comeback in the markets in the last quarter of the year. We continue to recommend a balanced exposure to bonds and equities to offer some safety as we experience some volatility in equity markets.■

Lighthouse Wealth Management
1078 Commerce Parkway
Ashland, Ohio 44805

Tim Rowsey, CPA
Investment Advisor Representative
Cell: 567-215-3015
trowsey@lightwealth.com

Aaron Rowsey
Associate
Cell: 419-606-5239
arowsey@lightwealth.com

Cheri Smeltzer
Operations Manager
Compliance Specialist
csmeltzer@lightwealth.com

Phone: 419-496-0016
Fax: 1-206-338-1393
www.lightwealth.com

The Light is published quarterly by Lighthouse Wealth Management, Inc.

Subscriptions are free. Paperless delivery is available upon request. Call Cheri Smeltzer at 419-496-0016 or email her at csmeltzer@lightwealth.com to be added to our list or to change your subscription.

At Lighthouse Wealth Management, we want to help our clients reach their financial goals and have plenty of peace of mind along the way. We offer a holistic, full service approach. We start by getting to know and understand our clients' wants, needs, and dreams. We partner with them to help them navigate all the financial challenges of life. We can help answer financial questions, help with tax planning and preparation, and guide our clients with their investments to help them reach their ultimate financial goals.

Just as a Lighthouse provides guidance to passing ships, Lighthouse Wealth Management provides our clients with solid, trusted, conscientious guidance to help them navigate risks and lead them to their financial goals.

Lighthouse Wealth Management believes in giving back. We give 10% of our profits to charities, including CURE, International. **www.cure.org**

Our Services

- Investment Advisory Services
- Individual Portfolio Management
- Retirement Planning
- 401(k) Rollovers
- Individual Tax Preparation
- Financial guidance in all areas

Helping individuals navigate their financial lives.