FOURTH QUARTER
DECEMBER 31, 2013

DEIGHAN
WEALTH ADVISORS

20 Years

Deighan Wealth Advisors
1994-2014

MARKET COMMENTARY

Maine is a state well-known and loved for its seasons. Each year, budding brown transitions into verdant green, followed by blazing orange and whitest white. Living here, it's nigh impossible to ignore this persistent, annual cycle, which is all at once familiar and unique. We mark our lives by the seasons. That's why New Year's Day is so important to the human spirit; it marks the day when the cycle begins anew. It's a day of reflection and anticipation.

Still, it's important to remember that what we define as one calendar year is an otherwise arbitrary slice of time. Had we evolved on Jupiter, then one year would be 4,332 Earth days long; on Mars, 687 Earth days. Back on Earth, our Gregorian calendar, though widely used and accepted, is but one method of tracking time that has been developed over the centuries. While it is reasonable and necessary that humanity picks one day and says, "This day shall mark our New Year!", it's less reasonable, to search for meaning where none exists. That is, we should not say, "It's a new year; things must now be different."

And yet, that's exactly what investors do this time of year. They look at charts, trailing returns, historical sales, and pro-forma earnings, all the while grasping for some piece of meaning upon which they might base their short-term decisions. Investment analysts and talking heads fill the airwaves with projections, explanations, rationalizations, and reaffirmations as though somehow something is suddenly different. But New Year's Day, particularly when it comes to investing, is really just another day in a long string of days. We should not expect too much of it.

Therefore, we advise investors to take a step back, and don't get caught up in the New Year's hullabaloo. For every dire prediction there's a positive one; for every one prognostication that rings true, there will be scores that do not. The future is always uncertain. What can we say about 2014 with relative certainty? The same things we might say on any given day: first, don't expect any one asset class to consistently outperform; second, do expect both good events and bad events to disproportionately affect markets; and third, recognize that things will happen that we cannot know or predict today.

These are the overarching themes with which any long-term investor should concern themselves, and they all point in the same direction, toward portfolio diversification. We cannot force disorderly markets to suddenly become orderly. Neither should we reach for meanings that do not exist simply because we want them to or because it's a particular time of year. Instead, what we can and should do is construct thoughtful, well-diversified portfolios. Such portfolios might not provide certainty, but they can provide both order and probability, the probability that hard earned dollars will withstand the many and varied tests of time.

Thinking about this all for a moment, let's consider today's stock market. One might look at it and think, "It can't go straight up forever!" This is true, there will always be downturns, and among them severe ones. But the tricky and darn near impossible part is getting the timing right.

"WE CANNOT FORCE DISORDERLY MARKETS TO SUDDENLY BECOME ORDERLY."

Will stocks continue to rise in 2014, or will they pull back? Maybe a pullback won't happen until 2015, or maybe it won't happen for years, although this would surprise us. This current bull market is neither the cheapest nor the most expensive on record, so what's an investor to do?

Again, we recommend taking a step back from the day-to-day view of investing. Are stocks up today? Were they down yesterday? For long-term investors with time horizons spanning 10, 20, or even 30 years, it actually doesn't matter. Today is but one day in a very long string of days, whether it's Monday, New Year's Day, or some other day. Over an investor's lifetime, the market will move upwards, downwards, sideways, and every which way. Maybe stocks look expensive today, but they're still likely to provide a solid return over the coming decades.

"PORTFOLIO MANAGERS ARE RISK MANAGERS, NOT FORTUNE TELLERS."

Next, we need to recognize that the more often an investor trades, the higher the demand to be right with each trade in order to wind up on the winning end. That's because every trade is the culmination of several assumptions, projections, interpretations, and decisions. Each link in the chain is important, and it only takes one bad link to break the effectiveness of the trade. This is why studies show time and again that those who trade too often are the ones who tend to hurt themselves the most, because of the increased opportunity for error.

In sum, we could sit here with no "fat pitch" in sight and say, "Markets are overvalued, sell now!" But we could be wrong, and stocks could advance for the next several years. Or we could say, "Stocks are cheap, load up!" Again, we could be wrong and stocks could decline. Portfolio managers are risk managers, not fortunetellers. Honest investment professionals as distinguished from media personalities don't know precisely what will happen short-term, and we don't want to hurt ourselves or our clients by exercising unfounded hubris. For this reason, we advocate putting trust in one's long-term asset allocation, and stick to the program riding out both the upturns and the downturns.

This might sound overly agnostic, but that's not our intention. We do try to be agnostic with respect to short-term movements, but we also spend long hours studying charts, historical sales, pro forma earnings, and so forth. The difference is that our focus, our assumptions, and our projections are always grounded in the long term, the period of time over which we can make reasonable inferences and expect relatively certain outcomes. Certainly we look at short-term periods, like one year, to give us a point of departure for tweaking direction. But we recognize that, since in the short-term markets can move swiftly, to read too much into such movements is of limited utility to long-term investors, rarely warranting a course correction.

Ultimately, it's not what happens on any one day that determines investor satisfaction; it's what unfolds over the long term. If we accept that we cannot know or predict the unknowable, then we are left with the best tools we have: diversification and discipline. These tools might not always sound exciting, and they don't always work over every arbitrary period of time. You won't spend every New Year's Day loving your asset allocation. However, over your full investing time horizon, which is very much a discrete (non-arbitrary) period of time, diversification and discipline have a high probability of yielding the best result. This is why our mission is to develop portfolios tailored to help our clients sustainably maintain their lifestyles year over year whether it's a year like 2008 or 2013. That said, in the spirit of seasonal celebration, we wish you health, wealth and the time to enjoy them! Happy 2014!

TAX TIPS FOR 2014

While the time horizon for successful investing may extend over years, the tax season is a highly structured, annually recurring event. Throughout the year, tax rules provide opportunities and challenges with calendar deadlines that close hard if they are missed. We canvassed several local CPA's for tips to share with our mutual clients. Following are a few items that might help you prepare now for a smooth 2013 filing season:

1. The early bird gets the worm. Set an early date to meet with your tax preparer. Most tax reports are in client hands by mid-February. While it is true that some tax reports like certain K-1s, OID reports, and reports from trusts and estates may arrive in mid-March or later, if you have most of your reports, you can have a preliminary meeting with your CPA and just delay hitting the "submit" button until after the last reports straggle in. One of the CPAs we surveyed also asked us to "Please tell clients to make an actual appointment with their tax preparer, don't just drop in. Time management is challenging for tax professionals at this time of year and it becomes increasingly difficult as we get closer to the corporate filing date of March 15th and the individual filing date of April 15th." Be sure to stake out your time early so your tax preparer's focus can be thoughtfully directed at your situation.

2. Be prepared. Any day now, tax professionals will send clients their annual tax prep questionnaires, which they hope clients will complete and return with the annual information necessary for processing tax returns. Do yourself a favor and take an early look at the form. Even if you do not plan to fill out the form -which tax preparers hope you will- use it as a checklist to organize the information in the order in which it is requested on the form. This helps tax preparers enter information into tax reporting software in a logical sequence and helps trigger tax saving ideas they may have for you. Also, if this is your first visit with a new tax preparer, be sure to bring along a copy of your previous year's tax return.

3. Despite the foregoing, ain't nothing like the real thing! As useful as it is to fill out the tax questionnaire, be sure to bring all original tax documents and notices with you. More and more the tax filing and collection process is being run by vast computer systems that are several generations removed from the human touch. These systems are designed to identify specific information. One of the CPAs that we canvassed said that it is more important than ever that they see your actual tax-related documents - 1099s, W2s, and so forth. These documents often contain additional information that is critical, yet may appear to be minor or unecessary if one is not used to reading them. This is especially true with any tax notice. What may appear to be minor or unnecessary, involving little or no money, may have significant repercussions if not handled in the right way early on. It is critical that tax preparers see any and all notices with all pages included.

4. Make a list (or several) and check it twice. List unusual things that happened last year that could distinguish this year's return from previous years. Did you make charitable gifts, especially gifts of appreciated securities or non-taxable gifts from an IRA required minimum distribution? If so, be sure to bring all documentation and receipts. Did you sell real estate or refinance your mortgage? Be sure to bring all tax reports relating to such transactions from each financial institution involved. If you sold real estate, provide cost basis information. Cost basis is required for sales of all property including securities. Clients of this firm should have cost basis determined in advance of sales for all of the securities under our management with the required information nicely reflected on year-end reports. Finally, if you have questions for your CPA, list them in advance and keep them handy, so you will not leave your annual tax prep meeting with lingering questions.

5. Pay yourself first. In our last newsletter, we pounded the table in support of tax deferred savings. We are doing it again, but now with more specificity with regard to 2014 deduction levels and contribution limits. IRAs and Roth IRAs provide a great way to accumulate capital for your future on a tax advantaged basis. For 2014, the maximum you can contribute to all of your traditional and Roth IRAs is the lesser of:

- $5,500 ($6,500 if you're age 50 or older), or
- Your taxable compensation for the year.

Income limits apply if you are covered by a company retirement plan, but in most cases, individuals making up to $60,000 can take a full deduction, and at least a partial deduction for modified adjusted gross income up to $70,000. The same applies for married couples making less than $96,000 for a full deduction, and up to $116,000 for a partial deduction.

This year, Roth IRA contributions are available at the following income levels:

- For individuals, full Roth contributions are allowed up to income levels of $114,000, with partial contributions allowed for income levels up to $129,000.
- For married persons filing jointly, full Roth contributions are allowed up to income levels of $181,000 with partial contributions allowed for income levels up to $191,000.

(continued)

SOUNDBYTES

Matthew Skaves ended his employment with Deighan Wealth Advisors on December 31, 2013 to start an unrelated business venture as discussed in our December 10th letter to clients and friends. We wish him well!

Jean Deighan traveled to Washington DC to attend the Schwab IMPACT conference. She attended many educational sessions that contained highly relevant information for investment advisors. A highlight of the conference was Keynote speaker former Maine Senator Olympia Snowe, who caught Schwab's eye with her new book "Fighting for Common Ground" that addresses how to fix Congressional gridlock.

2014 marks 20 years since Jean Deighan and Jenifer Wilson founded Deighan Wealth Advisors on August 1, 1994. Happy 20th Anniversary to us!

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TAX TIPS (*continued*)

Roth IRAs do not provide an income tax deduction, but are attractive for income compounding forever tax-free (as opposed to tax deferred); that is, within certain limits, no income taxes are imposed upon Roth IRA withdrawals, whereas traditional IRA withdrawals are taxed at ordinary income tax rates upon withdrawal.

Except for the slightly higher Roth income limits for 2014, the foregoing information also applies to contributions for tax year 2013 so long as the contributions are made by the 2013 tax filing deadline of April 15, 2014. For complete information and a handy worksheet for calculating partial Roth IRA contributions, see IRS Publication 590.

6. Pay yourself first, but do it early and often. Qualified Plans such as 401(k), 403(b) and 457 plans offer an even richer tax advantage with higher salary deferral limits of $17,500 for individuals under age 50 and $23,000 for those over age 50. However, in the case of qualified plans, the deferrals must be made directly from salary. It can be difficult to catch up late in the year unless one is in the position to receive significant bonuses and defer them directly into a plan. So, get started now deferring as much money as your budget allows and experience not only retirement security, but also a lower income tax bill in 2014!

The foregoing is hardly a comprehensive list of things to consider as we roll into tax season. However, we hope some of these planning tips will help you have a better experience as you get ready to settle up your taxes for 2013 and prepare for a sound 2014.

CORPORATE CHANGES

We are pleased and excited that Megan A. Freedman has joined our firm. Megan and her Maine-native husband have recently moved to Maine from Denver, Colorado. Megan hoped to find a professional position where she could utilize her background in financial services. Meanwhile, this past fall, our firm was conducting a search for a skilled financial service professional who shared our values, client focus, and work ethic. We are happy to report that wishes have been fulfilled all around. Megan joins us following a nine year career at Jackson National Life Distributors where she was most recently Assistant Vice President of Professional Sales Development. She has obtained multiple securities licenses, holds a Certified Fund Specialist (CFS®) designation, and will be joining our Investment Committee. Megan will initially focus on our operations and administrative systems.

Megan’s arrival allows Lucie Estabrook to return to her roots working directly with clients, which she was doing at another financial institution before her arrival at Deighan Wealth Advisors. Lucie has spent the last two years not only focusing on trust and estate matters, but also managing our firm’s successful conversion to an enhanced portfolio management system. We are delighted that Lucie will be working more directly with clients, and she is too!

With Matthew Skaves departure to start a new business venture, Jenifer Wilson has resumed her role as Chair of the Investment Committee. Megan Freedman joins Jean Deighan and Lucie Estabrook to round out the Investment Committee.

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