DEIGHAN
WEALTH ADVISORS

20 Years
Deighan Wealth Advisors
1994-2014

MARKET COMMENTARY

2014 wrapped up the year with market and economic imbalances all over the place. However, if you ask the average investor, 2014 was a "good year for the market" thanks to a fourth quarter rally that helped close the S&P 500 up 13.69%. Certainly, for US residents, the year-end results looked good for the home team, but the final score included too many "Hail Mary passes" to merit resting easily on laurels. Remember the hand wringing only a few months ago in October when even the S&P 500 had lost more than half of its gain for the year? While the fourth quarter rally saved the day, or rather, the year, it is important to remember that December 31st provides only a snapshot look at any and all markets during a year in which we experienced significant volatility. Now, in early January we are dealing with another slide off, followed by another rally, and so on and so on. As we have said before, volatility is the new normal.

Investment returns across global broad asset classes can be described as "haywire." Take a look at the chart below to get a sense of the divergence of 2014 returns in some of the major markets:

Asset Class	Representative Index	2014 Return
US Large Cap Equities	S&P 500	13.69%
US Small and Midcap Equities	Wilshire 4500 Completion	7.94%
Developed Internat'l Equities	MSCI EAFE (Net)	(4.90%)
Emerging Internat'l Equities	MSCI EM (Net)	(2.19%)
Alternative Equities	HFRX EH Equity Market Neutral	3.63%
Hard Assets	Bloomberg Commodities	(17.01%)
Broad Fixed Income	Barclays US Aggregate	5.97%
Cash Equivalents	BOA/Merrill Lynch T-bill 3 Month	0.03%

US Large Cap Equities clearly lead the way in 2014, a reflection of the continued US economic recovery. However, the joy was not extended to Developed International Equities. Both Europe and Japan continue to struggle against multiple headwinds and have not yet recovered from the 2008-2009 financial crisis. On the encouraging side, both have finally instituted quantitative easing programs, imitating the US Federal Reserve Board's strategy that worked well for the US. Commodities were off sharply primarily as a result of falling oil prices which dropped more than 50% in 2014. Although not showing on the chart, most foreign currencies have plummeted versus the dollar. This is partly due to the fact that the US economy has recovered reasonably well in contrast to other world-wide economies. Thus, the strong dollar further punished international ex-US investments of all types. Finally, the 2014 broad US fixed income results surprised most investment professionals. Over the course of 2014, the Fed has stopped propping up the US economy with expansive monetary policy, and has signaled that it will start raising the Federal Funds rate in 2015. In a rising interest rate environment, simple mathematics would dictate that the prices of bonds go down. Thus, the 2014 upward price movement of long maturity, high quality US bonds had to be fueled by a flight to quality. In other words, the seagulls are flying inland. Could they be sensing an impending storm?

Perhaps our seagulls are viewing a massive oil slick. While consumers may be cheering the price drop every time they fill their gas or oil tanks, they may not be seeing the bigger effect low oil prices will have on their lives and their investment portfolios. Much of the economic renaissance in the US has happened in the Midwest and Western states as a result of increased oil exploration attendant to our desire to become energy independent. Only last month, I overheard a conversation among some well respected Maine business owners as they were saying that oil truck drivers in the Midwest were making $100,000 a year and if they were young, they would move out there and take advantage of the boom. Regardless of whether the high price tag for low skilled labor is true, the boom mentality was certainly apparent. The fact is, extracting oil and gas from shale or fracking, is not cheap production. So long as oil prices remain relatively high the numbers work, but when the extraction becomes unprofitable because cheaper oil is available elsewhere, the businesses that have arisen to service the local industry will eventually crumble with the falling oil prices. As we ponder oil prices, I am reminded of "The Wizard of Oz" and Penobscot Theatre's excellent, ambitious December production. The Tin Man needed his oil can to survive, but he wanted a beating heart to become real. In the early production of the play almost 100 years ago, many thought the Tin Man was a parody for John D. Rockefeller, joking his world would really freeze up if he didn't get the oil he needed, but what he needed most was a heart. I am not sure who the Tin Man might be in the current scenario. I am more interested in who might be the "man behind the curtain" pulling the levers and why. The Saudis, our long time allies, say they have two years of cash reserves, and show no signs of slowing production. Some analysts see the current oil glut as a "shot across the bow" to US producers touting US energy independence. Others cite lower worldwide demand for oil due to economic slowdown as the primary driver of lower oil prices. None of it is particularly upbeat. If the Saudis are the primary drivers behind lower oil, they can starve out the more highly leveraged US and Canadian producers precipitating a bust in our home grown energy boom. Even if the reason for lower oil prices is lower demand, then we had better hope the accommodative monetary policies of the Eurozone and Japan, in concert with cheap energy, jump starts their economies as well as those of emerging nations who are not overly dependent on energy production. After all, more than ever, it is a small, small world and eventually trouble in one area bleeds into another. One dividend of the falling oil prices may be increased effectiveness of economic sanctions placed on Russia for its aggressive posture in the Ukraine. The ruble has taken a terrible drubbing in 2014, but Putin is a tough leader, and too much provoking of a wounded bear could have difficult consequences too.

During a recent interview, Christine Benz of Morningstar cited the top issues that caught the investment community off guard in 2014: rapidly falling oil prices, the strong US bond performance given the Fed's clear stance to increase rates, and the strong performance of the S&P 500 Index despite the volatile year. For active managers, it was a confounding and tough year. Looking ahead, the watchwords for 2015 are continued volatility and the exercise of caution. Against this backdrop, as we rebalance portfolios, we will be emphasizing security quality and portfolio durability. Twenty years ago when we launched the firm we said, "We want to build durable portfolios that will withstand the test of time for our clients." That objective is as important to us today as it was the day we opened our doors, and that is where we will continue to place our focus. As always, please call us with your questions or thoughts. Best wishes for a sound 2015.

TAX TIPS FOR 2014

The tax season is upon us already. In fact, one CPA told us she has already worked her first full weekend in 2015! Tax season is a highly structured, annual event with calendar deadlines that close painfully hard if they are missed. Here are a few tips to help you prepare for a smooth 2014 filing season and sound 2015 planning:

- Meet with your preparer early but file later. Most tax reports are in client hands by mid- February. However, custodians like Schwab must pass through changes if they receive them from transfer agents and mutual funds late in the season. Also, some tax reports like K-1s, OIDs, reports from trusts and estates, and adjustments to 1099s may arrive in Mid-March or later. Once you have most of your reports, you can have a preliminary meeting with your CPA. Just delay hitting the "submit" button until late March or early April in case some adjusting or late reports straggle in. While most of the time the adjustments are very small, sometimes they are consequential. Thus, it pays to prepare early and wait until later to send in the final return.

- List unusual things that happened last year that could distinguish this year's return from past returns. Did you make charitable gifts - especially gifts of appreciated securities, or non-taxable gifts from a required minimum annual IRA distribution? If so, bring all of the documentation and receipts. Did you Roth an IRA, sell real estate, or refinance your mortgage? Bring all tax reports relating to such transactions from all of the financial institutions 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 now have cost basis reflected on custodial 1099 reports for all securities under our management.

- If we are requesting checks from Schwab for your tax payments, let us know of your tax payments well before Schwab's April 8, 2015 deadline. We will need to submit check requests to Schwab in time to get them back to you. Furthermore, if you are making a contribution to a retirement account, please get your check to us no later than 4:00pm Friday, April 10, 2015.

- Speaking of retirement plans, always pay yourself first! IRAs, Roth IRAs, and company retirement plans such as SIMPLE Plans, 401(k)s or 403(b)s, provide a great way to accumulate capital for your future on a tax advantaged basis. The following chart outlines a few useful contribution limits:

Retirement Plan Type	2014	2015
Traditional and Roth IRA Contributions	$5,500	$5,500
Traditional and Roth IRA with "catch up" for those 50+	$6,500	$6,500
SIMPLE IRA salary deferral limits	$12,000	$12,500
SIMPLE IRA with "catch up" for those 50+	$14,500	$15,000
401(k) and 403(b) salary deferral limits	$17,500	$18,000
401(k) and 401(b) with "catch up" for those 50+	$23,000	$24,000

In the case of Traditional IRAs and Roth IRAs, income limits apply if you are covered by a company retirement plan, but in most cases, individuals making up to $114,000 and married couples at $181,000 can take a full deduction, and at least a partial deduction for modified adjusted gross income up to $129,000 and $191, 000 respectively. The income limits are slightly higher for 2015. While some types of plan contributions can be made later, it is important to recognize that traditional and Roth IRA contributions for the 2014 tax year have an April 15, 2015 deadline.

One distinction between the income limits for traditional IRAs and Roth IRAs is that you may still contribute to a Traditional IRA if the income limit is exceeded, but you cannot deduct the contribution. Roth IRA contributions are not deductible, but they are attractive as their growth compounds forever tax free as opposed to tax deferred. One popular planning technique is the conversion of a regular IRA to a Roth since many believe taxes are more likely to go up in the future. Some tax advisors are even suggesting taxpayers who make incomes beyond the Roth IRA deduction limits, contribute to a non-deductible traditional IRA and then convert the non-deductible IRA to a Roth. The decision to convert a traditional IRA to a Roth should be made after consulting your tax preparer as it is a taxable event and many factors should be carefully weighed depending on your particular tax situation.

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 2014 and prepare for a sound 2015.

INVESTMENT CHANGES

The following investment changes were made this past quarter. Depending on your portfolio holdings and Investment Policy Statement, these changes may or may not be applicable.

Removed
Brookfield Property Partners, LP
Ticker: BPY

We sold Brookfield Property Partners, L.P. firm-wide. BPY owns, operates, and invests in commercial properties in North America, Europe, Australia, and Brazil. Although the fundamentals looked good upon purchase and remain solid, the company is headquartered in Bermuda, and therefore BPY issues a foreign held Form K-1 at tax time versus a 1099. Form K-1 is often sent late in the tax season and might not make it to clients in time to include with the documents that they deliver to their tax preparers. BPY sent its K-1 very late last year causing great consternation among clients as most had to amend tax returns, which places a burden both on the taxpayer and tax preparer. As the company is headquartered offshore, the K-1 required special handling on tax returns. We sold the remaining holdings at a gain before the end of 2014. Clients will receive a K-1 from BPY in 2014, but not for 2015. *(over)*

SOUNDBYTES

Tyler Hoxie was awarded the Claritas® Investment Certificate by CFA Institute. Successful completion of the Claritas Program requires approximately 100 hours of self-study followed by a two-hour examination that covers the essentials of finance, ethics, and investment roles, providing a clear understanding of the global investment industry. Congratulations, Tyler!

Jean Deighan attended the 2014 Schwab IMPACT conference in Denver, an invitation-only financial industry conference where investment advisors learn about key issues and best practices.

Lucie Estabrook and Tyler Hoxie attended Tamarac University in Chicago where they honed their skills with our portfolio reporting software.

Jean and Tyler traveled to Boston to receive additional training with MoneyGuide Pro, a sophisticated, collaborative, internet-based software program that we use to help clients with financial planning.

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www.deighan.com

(INVESTMENT CHANGES continued)

YEAR-END REALIZED CAPITAL GAIN AND LOSS HARVESTING

As year-end approaches, our portfolio managers look to minimize taxes that clients might pay as a result of realized capital gains. A capital gain is the money you receive when you sell shares minus what you paid for the shares. Depending on your tax bracket, you may have to pay taxes on capital gains. One way that we can help minimize capital gains tax due next April is to sell securities in a loss position to offset those that realized gains.

While we may take advantage of these losses by selling securities, if we purchase the same security before thirty days have elapsed, we would run afoul of the IRS wash sale rules. A wash sale is the sale of a security at a loss with repurchase of the same or substantially identical security within thirty days. If this occurs, then the IRS won't allow you to use the loss to offset your gains. So, we must be careful when taking losses not to repurchase the same security within thirty days of the sale. However, we may wish to remain invested in the sold industry or asset class to take advantage of market rallies while we are on the sidelines, in which case we purchase a suitable proxy – something that is somewhat correlated with the sold security – for the thirty days during which we are not able to buy the sold shares. We typically purchase index ETFs for this purpose.

Tax loss harvesting decisions are made on a case-by case basis depending on the needs that you and your tax preparer have conveyed to us. As such, you may have seen securities sold at a loss in your portfolio for the purpose of offsetting capital gains, and index ETFs purchased in their place while we await repurchase or replacement.

HAPPY NEW YEAR
FROM THE DEIGHAN TEAM!

SUPPORTING COMMUNITY AS A FIRM VALUE

Supporting Community is an important part of our firm DNA. Firm members support community with time on volunteer boards as well as financial support. Here are a few of the efforts we recently supported:

- We sponsored the summer/fall exhibit at the University of Maine Museum of Art. UMMA is a wonderful gem of a museum in our fair city of Bangor, and we encourage a visit. Admission is free.

- Jenifer Wilson witnessed the grand opening of Sarah's House – Cancer Hospitality House of Maine. Last year, as President of Bangor Rotary Club, Jenifer worked to gain support for this project. She continues to stay active as a Board member and Chair of the Endowment Investment Committee.

- We were happy to host an appreciation event in our beautiful building for American Folk Festival major donors. We are proud to support the AFF every year and look forward to it this summer!

- Deighan Wealth Advisors played a lead as a Ruby Slipper Sponsor of "The Wizard of Oz" at Penobscot Theatre Company. Part of our sponsorship was underwriting an acting scholarship for local youth and sponsoring a class from Downeast School to attend the production. This year's show was phenomenal, and we were delighted to share the joy!

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