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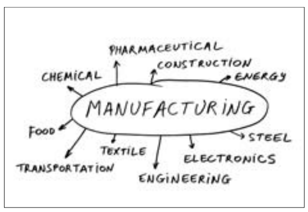
Manufacturing Is On Its Way Back To America

A combination of new technologies, low natural-gas prices, and the promise of a third industrial revolution are fueling hopes that the U.S. economy may emerge stronger than ever from the worst recession since the 1930s. Among the evidence that this revival already has begun are steady increases in the monthly Purchasing Managers Index (PMI), which has been improving month to month since late 2011. Prior to a slight dip, the manufacturing sector recorded its 33rd consecutive monthly expansion in April 2012, and the U.S. economy grew for the 35th month in a row.



Much of the recent good news for manufacturing, largely overlooked amid worries about other economic indicators and fallout from the ongoing sovereign debt crisis in Europe, can be traced to new technologies that are making it possible to drill oil and natural gas from shale rock formations. Petroleum geologists used to write off shale as a resource because there was no way to gain access to the oil and natural gas trapped in the formations. Now, technologies such as horizontal drilling and hydraulic fracturing (or fracking) have made it possible to extract oil and gas from these resources. This has caused a glut in natural gas supplies, which in turn has reduced prices to their lowest levels in 10 years.

These developments are having a snowball effect in the larger economy. Natural gas is used to generate much of the nation's electricity, so the decline in natural gas prices is trimming consumer bills for electricity as well as for heating. And the boom in oil and gas exploration is creating jobs not only for drilling companies but also for energy supply companies, the steel and plastics industries (heavy users of oil and natural gas), the paper industry, and the broader services industry. With more oil being produced in the U.S., the country also is less dependent on foreign sources.

Other new technologies have reduced labor costs for U.S. manufacturers in the transport, computer, fabricated metals, and machinery industries, all of which had outsourced much of their work to China. Now, with labor expenses dropping as a percentage of overall costs, U.S. companies are bringing jobs back home, gradually reversing the trend that had moved so many manufacturing facilities overseas. Being able to locate manufacturing plants near U.S.-based product designers also helps companies cater to increasing consumer demand for customization.

A U.S. manufacturing boom will have a significant impact on economic recovery. During the past five years, the boost in energy production alone has created 158,500 new jobs, and according to a recent Boston Consulting Group estimate, U.S. manufacturing output could be increasing at an annual rate of $22 billion to $55 billion by 2020.

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Now Is Time To Act On 2013 Tax Planning

The potential for higher income and transfer taxes loom large as year-end approaches and legislative uncertainty continues. These projected tax increases will not only impact high net worth individuals but also closely-held business owners and upper middle-class taxpayers. Yes that maybe you!

Despite much activity prior to the August recess, Congress did not reach agreement on the extension of the individual income and transfer tax provisions set to expire on January 1, 2013. So under current law, 2013 will bring with it numerous tax law changes that could significantly increase your federal income, capital gains and/or estate tax exposure next year. So here is the deal in a nutshell:

- **A new 3.8% Medicare tax on the "net investment income"**
- **0.9% increase in the employee portion of the Hospital Insurance Tax on wages**
- **Increase in the top marginal income tax rate to 39.6%**
- **Reinstatement of personal exemption phase-outs and limits on itemized deductions effectively increases taxes by 1.2%**
- **Reinstatement of higher federal and gift tax rates up to 55%**

Source: The CPA Client Bulletin (ISSN 1942-7271)

*Based on calculations I ran on a typical Partners Wealth Management client. The tax hit would be approximately $23,000 in additional taxes!

Now is the time to plan. There are opportunities to be had this year that we may never see again. Please give us a call and let's explore the options.

*The case study results are for illustrative purposes only and should not be deemed a representation of past or future results. This example does not represent any specific product. No representation is made as to the accurateness of the analysis.

John

30 Documents For Peace Of Mind

What would happen if you were travelling abroad and had a medical emergency? Would emergency medical personnel have access to information about your allergies and medical history?

If your home is hit by a fire or natural disaster, will there be safe copies somewhere else with information about your mortgage, marriage certificate, and property?

If you succumb to an injury or are suddenly stricken by a fatal illness, will your loved ones know whom to contact, your final wishes, and where all your personal and financial records are stored?

None of these situations is pleasant to think about, of course. But our firm is here to help you address these issues. There are about 30 key documents ranging from complex trust arrangements to a simple contact list that can provide you with peace of mind and be crucial in a family emergency.

So we recently began utilizing a secure online vault created expressly for private wealth advisors.

Our firm has absorbed the expense of this online vault system to provide you and your family with a way to store personal financial data securely not only because we believe that transparency about your financial situation will strengthen our relationship with you by keeping you fully informed, but also because we are certain this vault will help you organize your personal records in case of a family emergency.

In case of a medical emergency, for example, a wallet in your card can provide doctors with a URL where they can download a detailed medical history. In case you become incapacitated, your medical proxy can be obtained. And, in case of a death, loved ones have access to crucial records about financial accounts, trusted advisors, and final wishes.

Unlike many online storage solutions, this one is encrypted always — when information is uploaded, downloaded, or stored. In addition, "strong" passwords using non-alphanumeric characters are required and the system is monitored 24/7 by an independent third-party application for intrusion detection and prevention. The system includes workflows and features specifically for private wealth advisors, which will improve our communications with your personally and eliminate the use of non-secure emails to transmit personal data.

One feature of the system that can be particularly useful to families is its collaboration settings. Parents or grandparents can provide children access to different folders. So the beneficiary can be given access to a folder about a trust but might not be able to access other folders. Children can also be given access to portfolio data on parents' accounts, which often becomes wise as family members age.

The online vault contains "help" videos but is intuitive enough for most computer users to figure out how to use it without instructions. If you would like us to upload documents to the vault for you or show you how to do it, or if you have any special instructions in the way we set up a vault for you, please call our office to let us know. ●

Set Up Your Trust To "Fail" On Purpose

The tax climate might be right to set up an intentionally defective irrevocable trust, or IDIT. This unusual arrangement may be especially beneficial in light of new legislation affecting federal income, gift, and estate taxes. The basic premise is as follows: The IDIT may be used to effectively freeze the value of the estate for estate tax purposes, while requiring the trust grantor to pay income taxes.

Background: Normally, someone creating a trust might transfer assets, such as cash or securities, to it and name loved ones as the income beneficiaries. By handing over assets to the trust, you avoid tax on any future earnings. That can be particularly helpful for someone in the top 35% income tax bracket. Instead of being taxed to you, income tax on trust assets is paid by the trust, with tax rates starting at 15%. But income tax brackets for trusts are compressed, with only the first $2,300 of trust income taxed at that 15% rate in 2011. The trust reaches the top 35% bracket with just $11,350 of income. That means a trust could pay substantially more tax on earnings than you would as an individual.

To avoid that situation, the trust could be structured to be intentionally "defective," so that trust income is taxable to you instead of to the trust. For instance, you might retain the right to substitute trust assets with other assets of equal value. Keep in mind that the money you transfer to the trust—and then ultimately to your heirs—constitutes a potentially taxable gift. However, generous exemptions from gift tax liability under the 2010 Tax Relief Act could reduce or eliminate the tax.

Also, under the new legislation, the federal exemptions from estate tax and gift tax have been reunified and the exempt amount has been

How To "Sell Short" And "Against The Box"

Suppose that you've done your homework and you have good reason to believe the price of a particular stock is about to fall. Perhaps its fundamentals are weak or the company operates in an industry that is falling out of favor. To profit from that misfortune, you could decide to "sell the stock short," even though you don't own it. Selling short typically involves borrowing shares from your broker, selling them, and depositing the proceeds of the sale in a stock margin account. If the share price does drop, you then can buy the stock at a discount to replace the borrowed shares. You come out ahead because you bought low and sold high—just not in the usual order.

Let's look at an example using purely hypothetical facts. (For simplicity, this illustration doesn't include commissions or other fees.) Suppose that you strongly believe that shares of Anycorp are going to drop substantially. So you sell short 100 shares of Anycorp at $50 a share after you've established a good-faith margin with your broker. When the stock falls to $30 a share, you're ready to pounce—you buy 100 shares of Anycorp for $3,000. As a result, you've realized a $2,000 gain ($5,000 minus $3,000) by selling short.

What happens if the price of the stock goes up? In that case, be prepared to lose money. For example, if the price of the stock rises to $60 a share and you buy 100 shares of the replacement stock, you're out of pocket $1,000, not counting any commissions and fees.

Also, keep in mind that you'll have to meet several technical requirements for short sales. To begin with, your short-sale margin account must have 150% of the value of the short sale at the time of the transaction. The 150% includes the full value of the short-sale proceeds, plus an additional margin requirement of 50% of the value of the short sale. For instance, if you initiate a short sale for 1,000 shares at $10, the value of the short sale is $10,000. The initial margin requirement is the proceeds of $10,000, plus an additional $5,000, for a total of $15,000.

Other maintenance-margin requirement rules for short sales are designed to ensure that the borrowed shares will be returned. For purposes of FINRA, the regulatory body governing brokers, the maintenance requirement for short sales is 100% of the current market value of the short sale, plus at least 25% of the total market value of securities in the margin account. Keep in mind that this is the minimum requirement; a brokerage firm may impose a higher minimum. Many brokers insist on maintenance requirements of 30% to 40%.

Clearly, this investment strategy is not for the faint of heart. Remember that selling short is a speculative undertaking that carries significant risk. You should consider it only if you're convinced that the price of the stock is going to drop. To hedge your investment slightly, you might arrange to buy some shares of the same stock at the time you sell short. That way, if the price of the stock does rise, you're able to offset some of the damage with a gain.

A related investment strategy is to "sell short against the box." That involves selling short shares of stock you already own. Thus, you effectively create both a "short" and a "long" position in the same stock. This results in a neutral position for which you have locked in your capital gain *and* your loss on the stock.

Years ago, selling short against the box was a technique that could defer the tax due on a capital gain. But the law changed in the 1990s and tax deferral is no longer permitted. In 2012, however, *not* deferring stock gains may be your most advantageous strategy. That's because the maximum tax rate on long-term capital gain is scheduled to increase from its current 15% rate to 20% in 2013, absent any legislative action. Furthermore, a 3.8% percent Medicare surtax will apply to a portion of the investment profits of certain high-income investors, resulting in an effective tax rate of 23.8% next year—not even counting any state income tax.

Obviously, the illustrations here only hint at the sophisticated techniques required for short sales and for selling short against the box. In light of the recent volatility in equity markets and the pending tax-law changes, these or other hedging strategies might turn out to be appropriate for your situation. We can help you look at your portfolio and your investing goals and consider the opportunities that are available to you. Please give us a call to set up an appointment ●

increased to $5 million for 2011 and 2012 (indexed for inflation in 2012). So, even if a portion of that total is used up by the transfer to the IDIT, you're likely to have a substantial amount left to reduce estate taxes.

By using the IDIT, you have still relinquished control of the trust assets, so those assets are treated as being removed from your estate. But remember that these are complex arrangements that must be structured carefully. We can work with your attorney to create a trust that fits your situation. ●

How To Guard Against "Skimmers"

In this age of technology, you probably don't think twice about using the ATM at your bank, the self-checkout machine at the supermarket, or various credit card terminals around town. It's never been a problem before. But a new type of crime called "skimming" may give you pause.

Essentially, skimming is the practice of stealing your credit card information, usually through the use of high-tech equipment. Then the thief makes purchases under your name or sells the data to someone else. Either way, you could end up with an exorbitant credit card bill or an empty bank account.

Typically, a skimmer installs an electronic device over the actual card reader on the ATM or credit card machine. As your card slides through, the device reads its magnetic strip, capturing your vital financial information. The level of sophistication can vary from cheap skimmers that should be relatively easy to spot to more expensive versions that are virtually undetectable by the naked eye.

Usually, the skimming device captures and stores your PIN (personal identification number) as well as the card's security code. Some skimmers feature a false keypad that goes on top of the actual keypad reading the PIN, while newer devices utilize pinhole cameras mounted above the keypad. The information may be stored locally and picked up by the thief or transmitted via a phone line or even wirelessly.

How can you protect yourself against skimming? Here are a few practical suggestions.

- Look carefully at the ATM or credit card terminal before using it. Although sophisticated skimming devices may be hard to detect, cheaper versions are often clumsily attached to the reader. If something is sticking out or doesn't fit with the rest of machine, walk away.
- Before you insert your credit card, pull on the reader or jostle the card around the slot to see if anything is loose. Again, don't use the terminal if your suspicions are aroused.
- Be aware of people hanging around the ATM for a long time. The skimming criminal could be lurking nearby to collect the information.
- Avoid ATMs in isolated locations that don't seem to be part of a store or bank. There have been instances where fake terminals have been set up without an establishment's knowledge.
- When you enter your PIN, use your free hand to block the view. That can shield your information from a camera mounted above the PIN keypad.

Finally, pay close attention to your credit card and bank statements. Fraudulent charges or unauthorized cash withdrawals often indicate that your data has been compromised. If that's the case, contact your bank or credit card issuer right away.

Back To America

(Continued from page 1)

Digitalization of manufacturing, lower labor costs, and cheaper access to clean energy could combine to create what some are calling a third industrial revolution. The first two, in the 19th and early 20th centuries, culminated in mass-production technologies that have remained the model for manufacturing ever since. Now, however, emerging technologies, such as 3D printing, are turning that model on its head. Today, rather than needing to raise enormous amounts of capital to build huge factories, entrepreneurs can use relatively inexpensive web-based services to cater to a variety of consumer demands. And whereas the first two industrial revolutions created individual wealth and industry titans, the third should benefit a much broader spectrum of society.

New technologies will help create jobs in the private sector while they also help revitalize industries that suffered during what has been dubbed the Great Recession. For example, the new oil- and gas-drilling capabilities are drawing workers to areas where housing is in short supply. That, in turn, is a boon for the prefabricated housing industry, and it's enabling companies in that and other industries to rehire workers they were forced to let go during the recession.

Digital technology is beginning to blur the lines between the manufacturing and services sectors. And as it continues to draw jobs back to the United States, it could provide enormous economic stimulus, stabilizing the recovery. As independent economist Fritz Meyer notes, even in the face of competition from China and other emerging economic powers, the United States has remained the world's largest manufacturer. This growing resurgence will only increase U.S. dominance and help sustain economic expansion despite temporary disappointments. ●