LANDMARK FINANCIAL ADVISORS, LLC

WEALTH MANAGEMENT

OCT 2014

TAPPING GLOBAL POTENTIAL

Over half of the world's investment opportunities are located beyond our shores. An international investment focus gives U.S. investors access to growth in regions of the world that behave differently than our domestic markets, which also helps lower fluctuations in the value of their investments with this added diversification.

International stocks (MSCI All Country World ex USA Index) have actually outpaced our domestic U.S. stocks (MSCI USA Index) in 11 of the past 25 calendar years ending in 2013. Global economies and markets crashed in unison five years ago, but both developed and emerging international stocks remain below 2007 levels while our domestic markets have more than eclipsed the 2007 levels. International stocks have lagged U.S. stocks cumulatively by 40% over the last five years ending September 25, 2014, which has not gone unnoticed by us.

The following are some of the key reasons behind what will be an increasing allocation to international stocks:

•OPPORTUNITIES—Approximately 75% of the world's publicly traded companies are located outside our borders. It would be naïve to think in our ever increasingly global economy that only U.S. companies will dominate on the world stage.

•GROWTH—We are no longer the fastest growing economy in the world, and probably won't ever regain that title due to our massive size. The U.S. accounted for 33% of global GDP in 2001, but by 2013 we represented just 23% of global GDP.

•VALUATION—International stock valuations are priced below their historical averages. By comparison, our U.S. markets are not cheap anymore. Valuation or starting P/E is one of the best indicators of future returns (7-10 years), therefore we feel these global markets are now much more attractive.

•GENERATING INCOME—In this low-rate environment dividend yields can enhance an investment's attractiveness, by helping to lower risk and provide cash-flow on a consistent basis. The 2.9% yield on international stocks greatly surpasses the current 1.8% average yield in U.S. equities today.

•URBANIZATION—Emerging markets, with a population of about 6 billion people (85% of the world's population), are still in the earliest stages of the urbanization that our country has enjoyed for the last several centuries. Technology and the connected world will only continue to rapidly grow these markets.

Finance theory and most college endowments follow an upper allocation for international stocks based on global market capitalization, which is currently about 51%. Our research shows that an allocation ranging from 20-40% is considered reasonable. Our international benchmark for foreign stocks as a percentage of total equities is 25%. We had been underweight international stocks before this year began. We increased our allocations and anticipate an overweight in the future based on our key reasons stated above.

> **See the investment world as an ocean and buy where you get the most value for your money.**
>
> –Sir John Templeton

ENTER THE TAX MAN

Strength in investment results over the last five years is making it very difficult to keep taxable gains in check as portfolios are rebalanced and tactical shifts are implemented. It is important that we alert you to the fact that taxes will be owed on portfolio results in the future on gains in taxable accounts. We do our best to try and control your tax liability as much as possible, but most capital loss carry forwards have been harvested and used over the last several years. With this in mind, good tax planning becomes very meaningful:

> **If you make any money, the government shoves you in a creek once a year with it in your pockets, and all that doesn't get wet you can keep.**
>
> –Will Rogers

- CHARITABLE GIFTS—You should be gifting appreciated stock for any gift over $5,000. You get the full deductions and will not be required to pay the tax on the appreciation. Contact us to get this simple process established.
- FUNDING DEDUCTIBLE QUALIFIED ACCOUNTS—Max-out your 401K ($17,500 or $23,000 Over 50) or Simple IRA ($12,000 or $14,500 over 50) retirement plan. If you don't have a plan and have earned income you can contribute to your IRA ($5,500 or $6,500 over 50).
- NON-DEDUCTIBLE IRA OR ROTH IRA CONTRIBUTIONS—You may not get a deduction in year 1, but the funds will grow tax deferred or tax free into the future. If possible, try to fund these buckets in addition to your retirement plan.
- ROTH CONVERSIONS OR THE BACKDOOR ROTH—This can be very complicated, but is a very powerful income and estate tax planning tool.

LANDMARK FINANCIAL ADVISORS WEIGHTINGS AGAINST THE S&P 500