

The C&A Advantage

Volume XLIV

No. 7

April 1, 2016

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General: This Newsletter is being written after a long conversation with a doctor-friend who confided that he sold all of his stock investments after the August 2015 stock market correction. On the recommendation of another dentist friend, this doctor moved the investments to a new financial advisor who put all of his accounts (\$2,000,000+) into deferred annuities. The doctor and his wife are in their mid-60's and their investments are tied up for the next ten years. Any premature distributions from the annuities will be hit with a large penalty. Needless to say this doctor believes he has been defrauded. He has retained a lawyer to start the process of getting his money back.

Stock market corrections, defined as a 10% drop, are always nerve-wracking. But, they are part of the investment process. They occur once per year on average all the way back to 1900! They are scary when we are living through them, because nobody knows when there will be a bottom. There are always legitimate reasons to be nervous. Lately, these have included falling commodity prices which are linked to slowing economies in the industrialized world and rising U.S. interest rates. The good news is that the market always rebounds. Thinking back to the pull-backs of 2015 and 2014, it's difficult now to remember exactly what the concerns were. In case you've forgotten, they were the PIIGS in 2015 (Portugal, Ireland, Italy, Greece and Spain) and Ebola in 2014. And as for 2016, the first few weeks of this year were the worst ever! The market dropped 11% from January 1 through February 11. What's fascinating is that come mid-March it has recovered all of its 2016 losses and is even up a tiny bit.

With the stock market bouncing up and down this year instead of rising consistently as it has the past seven years, it is natural to get a bit nervous. It could even get tempting to try to protect gains by selling near highs and buying back after the market falls (i.e., becoming a market timer). The only problem is that this is extraordinarily difficult to do on a consistent basis. The next part of this Newsletter explains why I gave up trying to time the market long ago and, instead, try to reduce my risk by investing only in what I believe are great companies that will prosper over time and reward their shareholders accordingly. I will also explain the approach that I would adopt if I were frightened by market volatility and tempted to seek protection in market timing.

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The C&A Advantage is mailed first-class to subscribers twice each month - \$265 annual subscription rate.

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[EDITOR'S NOTE: What follows is not meant as investment advice for any individual. Each reader must do independent research and consider his or her own situation and act accordingly.]

Successful Market Timing To Avoid A Market Decline Is So Hard To Do Because It Requires Doing TWO Things Right: It's not enough to correctly predict that a stock or mutual fund you own will fall. If it's an investment you want to own for the long term, you also have to buy it back before it rises up again above your selling price. Very few people can show they have done both of those successfully on a consistent basis. The few instances I have seen of people selling and successfully buying back at a lower price, I suspect, are dwarfed by the cases of investors who did not buy back at all or did so at higher prices than they sold for. I believe most of us stand to lose far more in long-term profits than we stand to make by selling in the hope of avoiding a short-term drop. When it comes to investing in fine companies, I've found patience is a highly profitable virtue as long as the fundamentals of the companies haven't changed.

The Most Important Investment Rule To Me Is "Dump The Losers Quickly. And Ride The Winners Long-Term": I prefer that method instead of owning lots of stocks or mutual funds and then selling and buying them back based on how I think the market will behave. My method seems to go against human nature. Studies show that most people place a greater weight on avoiding a loss than getting a gain. (Read that last sentence again - it is an important insight.) They hold their losers until they break even and sell their winners to avoid giving back the gains. The illogic of that should be obvious, but it is the more comforting route for most. It is like a gardener who cuts her flowers and waters her weeds.

Here's what I try to do, and why:

1. Dump The Losers - Whenever I buy a new stock, I do so fully aware that it can go down instead of up. What could go wrong? My reasoning could be faulty, or there could be a

problem with the company I didn't know about, or I could be right, but early, and the stock falls until Wall Street catches up with my thinking. Whatever the reason, the price is dropping, and I don't like it. If it's a stock I have NOT owned before, I will usually sell right away if it drops 10%. I will watch and may buy back later once I've figured out why the price has dropped. But at the time, I don't know why it's falling, and the price can keep on falling. I don't want to see it drop 25% while I watch and wonder. It's tough to make up a big loss like that. The math works against us. If a stock drops from \$10 to \$7.50, that's a 25% drop, but to break even it needs a 33% gain.

2. Ride The Winners - A good stock can remain a good stock for years. If you have owned a stock that is in a good business, with fine management, earns a high return on its capital and continues to have good prospects, you likely have a big gain. Great stocks like that are hard to find. When I find them, I view them as ~ long-term (preferably permanent) core holdings in my portfolio. But like all stocks, their prices will fluctuate and sometimes fall 20% or 30% or more.

Unlike the newly purchased stock described in the last paragraph, if it's a company I have owned for a long time, and I understand its business, and I believe its intrinsic value hasn't deteriorated, I don't sell during those inevitable downturns with the idea of buying back later at lower prices. Market timing is one of those ideas that sounds great but rarely works. I would consider selling if management or the fundamentals of the business changed for the worse. But if the price fell because of a general market decline, that causes me little concern when it comes to these great stocks that are core holdings.

Sometimes The Price Of A Stock Gets Ahead Of Itself (i.e Over-Valued Compared to its Underlying Fundamentals Due to Market Optimism About Its Prospects): If this is a "problem", it's a high-class problem -- exactly the kind I like to have! If it's a stock that is not one of those core holdings, I might sell, especially if I could use the funds to buy (or add to) other investments that I think are

undervalued or that I understand better. If the stock that gets ahead of itself is one of those core holdings, I do not sell it. I realize the price can drop, but I still don't sell. This, in my opinion, is a key point.

Why I Don't Sell the Core Holding That

Looks Overvalued: If I believe the price is at a temporary peak and could fall (even substantially), as long as I believe the future prospects for the company are sufficiently attractive, I don't sell. A recent example is the stock of Henry Schein, where the stock price has jumped 21% in the past six months. I realize my opinion is a minority view. Here are my two reasons for ignoring short term fluctuations for those core holdings with unusual prospects:

1. The Odds Favor Holding Vs. Trying To Sell And Buy Back At A Lower Price -

Companies that are truly great investments and have become core holdings are rare. Once found, they have a high probability of remaining outstanding long-term investments - meaning ones that in coming years will likely be worth many times their current temporary peaks. But it is notoriously difficult to predict what the market (and more so what a particular stock) will do in the short term. If the odds of predicting short-term drops are pretty low, yet the odds of predicting the long-term success of these good stocks are pretty high, why should I step out of an investment I want to hold for the long term? That is especially so if there is a big capital gain tax to pay.

2. Stock Market Down Drafts Do Not Erase a Stock's Intrinsic Value -

When considering these unusual companies in good businesses with good managements and fine prospects, history shows many examples where the stocks have subsequent prices many times their previous peaks. If the truly unusual stock might rise many hundreds of percent over a previous peak, how crucial is it for the long-term investor that in a bear market the price may temporarily fall 20, 30, even 40% before it resumes its rise?

When I Would Sell: If I worried that I owned too much of a stock or had too much in

the stock market, I would sell down to the point that I stopped worrying. We do not invest to drive ourselves crazy.

If I Were Inclined To Worry About Market Volatility And Wanted To Time The Market To Relieve My Anxiety, Here Is The Approach I Would Use:

I call it my "solar system" approach - the combination of an index fund for most of my stock investments (this is the core, or sun, that matches the market) and, circling like planets, a few individual stocks or funds that I think will outperform. The index fund gives diversification and market-tying performance. I might have only 4 or 5 individual investments that I hope will develop into long-term core holdings. If any of the specific investments perform badly, I would sell them and let the money gravitate back into the index fund. If I got scared about the market, I would lighten up by selling some of the index fund. I would not sell the core investments for the reasons mentioned above. That gives me a hybrid system of (1) being able to hold onto the core positions that I'm probably better off not selling, while (2) using the index fund as my emotional and financial safety valve to relieve the pressure whenever I get nervous and want to lighten up.

At the request of Newsletter readers, we occasionally list the stocks that comprise the core part of our portfolio (the first four below) as well as some stocks we've been adding to during market pull-backs and which may eventually become part of that core.

Berkshire Hathaway (Ticker: BRK/A or BRK/B) - Warren Buffett's holding company for insurance and other businesses and investments.

Henry Schein (Ticker: HSIC) - dental, medical and veterinary supplies

Johnson & Johnson (Ticker: JNJ) - health care products

MasterCard (Ticker: MA) - credit cards

Allergan (Ticker: AGN) - pharmaceuticals

Pepsi (Ticker: PEP) - drinks and snack foods

Visa (Ticker: V) - credit cards

Honeywell (Ticker: HON) - diversified industrial

Lockheed Martin (Ticker: LMT) - defense contractor

Starbucks (Ticker: SBUX) - coffeehouse chain

Good News for Berkshire Hathaway

Shareholders: One of our bucket list items is to attend a Berkshire Hathaway shareholder's meeting in Omaha. This is commonly referred to as Woodstock for Capitalists. Tens of thousands of investors descend on Omaha to listen to Warren Buffett and his partner Charlie Munger discuss all topics ranging from investing to the meaning of life and take advantage of the sales offered by the various Berkshire Hathaway subsidiaries. For the first time, this year's annual meeting will be webcast. We plan to tune in on Saturday April 30th at 10AM eastern, 9AM central at <https://finance.yahoo.com/brklivestream>.

The Best Year to Make a Large Roth IRA Conversion May be the Same Year You Sell a Vacation Home

Money that is contributed to a Roth IRA or converted to the Roth from a traditional IRA is taxed in that year at your highest marginal income tax rate.

Now, if you own investment real estate and are able to meet the strict tests required to qualify as a real estate "professional" then you enjoy the ability to use your annual real estate losses to reduce your taxable income. This includes income from your professional practice and/or income generated by a Roth IRA conversion. How might you generate a loss? Hopefully, it's not an operation loss. It will likely be due to the depreciation deductions on the building.

If you **don't meet** the real estate professional tests, then the rental losses, including depreciation, are suspended and can only be taken in the year the property is sold. If you are planning on making a Roth IRA conversion and are also planning on selling some real estate (e.g., a vacation home) that has some suspended losses, do them in the same year. The losses can be used to offset the taxes you will incur on the conversion. That will convert the taxable Roth conversion into a tax-free conversion. Remember, as with most things in life, **timing is everything!**

Will You Qualify for Financial Aid When Sending a Child to College? It's Unlikely:

Admittedly, we have very little (i.e., no) personal experience when it comes to applying for student aid. If you are interested in applying for aid, you will have to complete the federal student aid application referred to as "FAFSA." If you want to avoid the aggravation and time involved in completing the application, you can use SavingForCollege.com's financial aid calculator. See savingforcollege.com/financial-aid-calculator/

It asks 10 basic questions about your income, assets and family and then gives you an estimate of your Expected Family Contribution (EFC). As the name implies, this is the amount of college costs you're expected to cover before aid becomes available. When we plugged in some hypothetical financial numbers, our assumptions were proven correct. Financial aid will likely not be available. For example, a married couple with adjusted gross income of \$400,000, non-retirement accounts worth \$500,000, 529 accounts worth \$100,000 will have an EFC of approximately \$135,000. If the most expensive private colleges now cost around \$70,000, then this family won't come close to qualifying for financial aid. They'd be wasting their time completing the FAFSA application.

Deducting Your "Work" Clothing? This becomes a question of how aggressive you want to be. The IRS's and the Tax Court's general approach is: work clothing is not deductible if it is suitable for personal wear. Even if you do not intend it for personal use, if it is usable for ordinary wear, it's non-deductible. What about the effect of sterilization concerns? Some doctors have a wardrobe of ordinary clothing (shirts, blazers, ties, etc.) that they dedicate 100% to their practice. The idea is that considering all of the concern (hysteria?) about contagious disease control in a doctor's office, the clothing dedicated to the office is no longer suitable for ordinary wear. That is an aggressive position at this stage, as we have seen no cases on the issue, but it might be a persuasive argument in an audit. No guarantees, but it's worth considering by aggressive taxpayers.