JULY 2014

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS

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President's Address

We were honored to have BWFA profiled in the May 26 issue of Forbes magazine.

The special section on financial leaders in the capital region highlighted our firm's comprehensive, fee-only mission and the diverse skills of our 25-person team.

Robert Carpenter

Baltimore-Washington Financial Advisors
www.bwfa.com

THE CAPITAL REGION
FINANCIAL LEADERS

As Seen In... Forbes, May 26, 2014

Teamwork: Integrating Advice

Baltimore-Washington Financial Advisors

Meet your team. The 25 professionals at Baltimore-Washington Financial Advisors – BWFA – are poised to help you make the most of your money.

This full-service firm is staffed with standouts whose individual strengths in retirement and estate planning, investment management, tax services and business services mesh smoothly and simultaneously to serve virtually every area of a client's financial life. Their work is holistic, collaborative and consultative, says President and CEO Rob Carpenter, providing clients with what is, in effect, a family wealth office to help them reach their goals.

Wealth Managers: Financial Bodyguards

The advisory brims with financial knowledge: CFP® practitioners, CPAs, MBAs, professionals with master's degrees in taxation and finance, and a CFA Charterholder. "We offer exceptional service, all under one roof," says Carpenter.

At BWFA, each client works with a dedicated advisor who is supported by a cadre of experienced professionals. Clients get solid, no-nonsense counsel from experienced people they will come to know well.

For Clients Who Value Exceptional Stewardship

Founded in 1986 with headquarters in Columbia, Md., this is one of the metropolitan area's largest and oldest Fee-Only advisories. All BWFA sells is advice; there are no proprietary products advisors must push. Clients develop personal relationships with advisors, who help them invest toward reaching goals, plan for smooth estate transfer and avoid unexpected taxes. Advisors at BWFA also offer mergers and acquisitions insights to business owners.

BWFA has been recognized as a top firm in the industry, with honors and appearances in *Worth, Forbes* and *Fortune* magazines. BWFA experts have been quoted in the *Wall Street Journal, New York Times, Business Week, Washington Post, Baltimore Sun* and *InvestmentNews*.

MISSION STATEMENT:

Understanding our clients' needs and goals is the top priority at BWFA. We achieve this through consistent, two-way communication with every client. We don't believe in a one-size-fits-all approach; every client is unique, and we are prepared to adjust our strategies when new situations arise in our clients' lives.

As an independent, Fee-Only advisory firm, we put our allegiance to our clients first. We have no commitments to investment companies, insurance companies or management firms that encroach on our fiduciary responsibility to our clients. Without hidden incentives or financial ties, our expert staff members are free to singularly focus on what we do best: personally deliver objective financial advice to individuals, families and organizations. At every level, BWFA's service meets the highest standard for honesty, confidentiality and integrity.

These principles have motivated us since the company's inception more than 28 years ago, and they continue to provide the foundation for all that we do today.

Our commitment to our clients is paramount.

Helping Clients Gain Financial Peace of Mind

The firm works to build a diversified portfolio that produces favorable returns and reduces risk in accordance with the client's goals.

"I think the real genius of the firm is that it's a collaborative effort," says Carpenter. "We're all working together to help each client."

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Advisor

Do you know someone

WHO COULD USE GUIDANCE WITH THEIR INVESTMENTS?

MAYBE YOU KNOW SOMEONE WHO IS RETIRED OR NEARING RETIREMENT AND COULD BENEFIT FROM OUR SERVICES?

WE ASK YOU, OUR EXISTING CLIENTS, TO RECOMMEND OUR SERVICES TO FRIENDS OR FAMILY MEMBERS THAT COULD BENEFIT FROM OUR SUPPORT.

BY HELPING US GROW OUR "FAMILY OF CLIENTS", WE GET TO SHARE OUR PASSION WITH MORE PEOPLE JUST LIKE YOU.

PLEASE CONTACT MEGHAN AT MMANAS@BWFA.COM

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Financial Planning

WHERE THERE'S A WILL... OR WHEN THERE ISN'T...

THAD ISMART
CFP® – FINANCIAL PLANNER

What do Picasso, Abraham Lincoln, Martin Luther King Jr., and Howard Hughes have in common? They all passed away intestate—that is, they passed away without a Will. If you have not created a Will, then you have something in common with some of the richest and most famous people in history! However, this is *not* good news.

You might be thinking, "Why does this matter?" If you pass away without a Will in Maryland, your probate assets will go to your closest relatives under state "intestate succession" laws. Probate assets are assets that have predeceased or missing beneficiaries, individually owned assets, and tenant-in-common assets. Under "intestate succession" laws, the distribution of your assets follows an order of succession, depending on whether or not you have living children, parents, or other close relatives when you pass away. In addition, the courts will appoint a guardian for your minor children and a custodian for any assets transferred to them. Not only is it possible that the guardian and custodian might not be the same person, but he and/or she might not even be someone you would have liked to fulfill these responsibilities. Finally, without proper tax planning, you would not be able to take advantage of the Maryland estate-tax exemption, potentially paying unnecessary state estate taxes.

CREATING A WILL ENSURES THAT YOUR INTENTIONS WILL BE HONORED.

Everyone has an estate plan. Even if you have not created any estate documents, your state has created an estate plan for you. Your state has decided how your assets pass, based on your living heirs. There is an order of succession that is followed until a living relative is found. For example, when Howard Hughes passed away without a Will, his assets were divided evenly among his 22 cousins, who were his closest living relatives at the time of his death. Why let the state decide who gets your assets? Creating a Will ensures that your intentions will be honored.

If you have minor children, naming a guardian is the most important reason to create a Will. This will ensure that your children are cared for by the person(s) whom you deem best suited, rather than letting the courts decide whom that will be. In addition, you can include a minor's trust in your Will and name a trustee who will manage any assets left to your children. Without a Will, Maryland courts will appoint a custodian (who may or may not be your child's guardian) and establish a Uniform Trust to Minors Act (UTMA) account for each child's inheritance. The custodian will have to present to the Maryland courts an accounting of the expenditures from the UTMA accounts. In addition, the children will receive the assets in the trust at age 21 (often too young to responsibly manage a large sum of money).

If you are married and your net worth (investments, house, life insurance, etc.) is greater than $1,000,000 and you have not created any estate documents or done any tax planning, then you might pay more state estate tax than necessary when you pass away. By including tax-planning strategies in your Will in the state of Maryland, you can take advantage of its estate-tax exemption. In order to take advantage of each spouse's state estate-tax exemption, you must plan for it in your Wills.

SPEND TIME NOW TO GIVE YOU AND YOUR HEIRS THE PEACE OF MIND THAT COMES FROM KNOWING THAT YOUR AFFAIRS ARE IN ORDER.

Your Will and other estate documents should be reviewed every two years to make sure they still fulfill your wishes. Spend time now to give you and your heirs the peace of mind that comes from knowing that your affairs are in order.

Contact us if you would like to learn more about how BWFA can work with you and an estate attorney to create an estate plan suited to your needs and circumstances.

Financial Planning

HOUSING, MORTGAGES, AND INTEREST RATES – OH MY!

MARK STINSON
CPA, CFP®, MBA –
DIRECTOR OF PLANNING

America's residential sector was once the preserve of "mom-and-pop" investors or local developers. The role of hedge funds became apparent only when those who bet massively against the housing market—"The Big Short," as it was later termed—made billions while their rivals floundered. By gambling that subprime mortgages, extended to borrowers with no plausible means of repaying them, would poison the financial system, John Paulson personally pocketed $3 billion after his hedge fund skyrocketed. – *The Economist* Magazine

The Housing Crisis of 2007 was truly a "shock to the system." The housing market is still recovering from this crisis that caused the mortgage market to tighten. It is just now starting to open up.

Leading up to the crisis, homeowners were borrowing up to 100% of their home value. After the crisis, lenders strictly returned to the traditional approach of lending up to 80% of the value of the home (through mortgages and second mortgages). Recently, new mortgage programs have begun to appear.

THE HOUSING CRISIS OF 2007 WAS TRULY A "SHOCK TO THE SYSTEM"

BWFA has a corporate alliance with Equity United, a mortgage company located in Rockville, MD. Eric Suissa is the Branch Manager, and we asked him to give us his thoughts on the housing market, mortgage programs, and interest rates:

HOUSING

In some local areas there has been a major inventory shortage and many are having trouble finding a home. Multiple offers on the same listing have become commonplace, which has started to push home prices higher. In addition, lower interest rates have led to a sellers' market.

On the other hand, some home buyers are still having trouble qualifying for a mortgage or raising cash for a down payment. Recently, new programs have been introduced to help home buyers.

MORTGAGES

Traditional Homebuyer – The 80/10/10 program disappeared after the housing crisis, but has recently made a comeback. This program allows the buyer to put 10% down and receive the benefit of a lower rate on the first mortgage (80% of home value) and add a second mortgage (10%) at a higher rate.

First Time Homebuyers – Clients often ask about housing options for their children and grandchildren. Here are some examples of mortgage programs for first-time homebuyers:

Federal Housing Authority (FHA) – The FHA has the most flexible programs for first time homebuyers. The advantages of the FHA program are:

– Qualification with credit scores as low as 560
– Mortgage interest rates below conventional rates
– Down payments as low as 3.5% of home market value
– Flexibility that allows closing costs to be included in the mortgage amount (above and beyond the 3.5% down), though at somewhat higher interest rates

The disadvantage of FHA loans is they have very high monthly mortgage insurance premiums.

Co-Borrower Programs – These programs can be used by a parent to help a child qualify for a mortgage. The FHA has long had a co-borrower program that requires as little as 5% down. As noted above, though, FHA mortgage insurance is very expensive. Now other programs are offering co-borrower programs with no mortgage insurance, but at a slightly higher interest rate.

Interest Rates – Eric noted that, for the most part, interest rates have been holding steady without any major increases in the past 12 months. Although jobless claims continue to decline, it appears that the true jobless rate along with the underemployed is still very high. In addition, the Federal Reserve's tapering program is moving along as planned with no surprises. These two factors seem to be having a calming effect on the bond market, which is keeping mortgage interest rates relatively untouched. Unless we have some very bad news, Eric speculates that interest rates are likely to start climbing by summer's end.

If you have questions or plan to buy, sell, or refinance a home, Mark Stinson mstinson@bwfa.com or 410-461-3900 can help you determine how it will fit into your Financial Plan.

DO YOU HAVE THE RIGHT SMALL BUSINESS RETIREMENT PLAN?

JOE CAPUTO
CHIEF INFORMATION OFFICER AND
ASSOCIATE PORTFOLIO MANAGER

Has your business established a retirement plan that is right for you and your employees? If you are like many business owners, you probably do not have the time to research all the different plans and options that are available, based on the type of business you run. For example, depending on your business, you could establish a SEP IRA, a 401(k), a Profit Sharing Plan, or even a Defined Benefit Pension Plan.

There are many options, and it is important that you have a plan in place. If you are in the process of recruiting or expanding your work force, a well-designed plan could be the difference between talented individuals joining your team and deciding to work somewhere else.

Despite the many differences in plan designs, most have a few things in common. For starters, a small-business retirement plan not only allows you to save for retirement, it also allows you to reduce your tax liability today. As an added benefit, some plans allow your employees to contribute extra funds for their own retirements.

There are many factors to consider when you are choosing a plan or evaluating the suitability of your current one. For example, your target retirement date may influence which available investment choices are appropriate for your situation. In addition you'll want to ask:

– Does the plan carry high fees?
– What are the underlying mutual fund expense ratios?
– Is the plan diversified?

A professional investment advisor can help evaluate your needs and recommend a plan.

As a starting point, consider the following employer-sponsored retirement plans for small businesses:

401(k) Safe Harbor Plans (Named after Section 401(k) of Internal Revenue Code). These plans can be appropriate for companies with two or more employees. A plan participant can contribute up to $17,500 of his or her salary ($23,000 for age 50 and older) on a pre-tax basis, as a Roth contribution, or as a combination of pre-tax and Roth. In addition to the employee elective deferrals, the employer has the option to contribute employer matching contributions and/or employer non-elective contributions (profit-sharing contributions), not to exceed a total employee and employer contribution of $52,000 ($57,500 for age 50 and older). There are several investment options and models to choose from. A customized plan can be created for your business.

Individual-401(k) Plans (Solo 401k). Designed for the sole-proprietor and his or her family, this plan adopts rules similar to a 401(k) Plan.

SEP (Simplified Employee Pension) Plans. A SEP provides business owners with a simplified method to contribute toward their employees', as well as their own, retirement savings. SEP plans are tailored for small businesses and for the self-employed. SEP plans are easy to establish and administer and have no annual IRS filing requirements. Employee participants can choose their own investment allocations and models, and contributions are always 100 percent vested. Employer contributions to a SEP must be in the same percentage of salary to each eligible employee. SEPs do not permit employee elective deferrals. The employer's contribution is deductible as an employer expense.

SIMPLE (Savings Incentive Match Plans for Employees) Plans. This type of plan can be appropriate for a company with 100 or fewer employees. A SIMPLE IRA plan allows employees and employers to contribute to traditional IRAs set up for employees. It is well-suited as a start-up retirement savings plan for small employers not currently sponsoring a retirement plan. SIMPLEs are easily established; however, the employer cannot have any other retirement plan already established. Each year, the employer is required to contribute either a matching contribution up to 3 percent of compensation (not limited by the annual compensation limit), or 2 percent non-elective contribution for each eligible employee. Employees are always 100 percent vested for both contribution types.

Source: IRS.gov

BWFA IS READY TO ASSIST SMALL BUSINESS OWNERS WITH THEIR INVESTMENT NEEDS. CONTACT US AT 410-461-3900 OR EMAILUS@BWFA.COM IF WE CAN BE OF HELP TO YOU.

Investment Research

A PILGRIMAGE TO OMAHA

PHILIP WEISS
CFA, CPA – CHIEF INVESTMENT ANALYST

BACKGROUND

Each year on the first weekend in May, value investors flock to Omaha, Nebraska, for Berkshire Hathaway's (BRK) annual meeting, which has also been referred to as "Woodstock for Capitalists." This year, I was fortunate enough to be one of the record 38,000 to 40,000 people who made the journey. The crowd was so large that it filled CenturyLink, a 1.1-million square-foot facility that includes an 18,975-seat arena, and a 194,000 square-foot exhibition hall. For the BRK meeting, there are also floor seats. The crowd was so large that some latecomers had to listen from the Hilton Hotel across the street.

For those who are unfamiliar with the term, value investors seek stocks of companies that they believe the market has undervalued or ignored. Such a situation should create an opportunity to buy an investment at a discount.

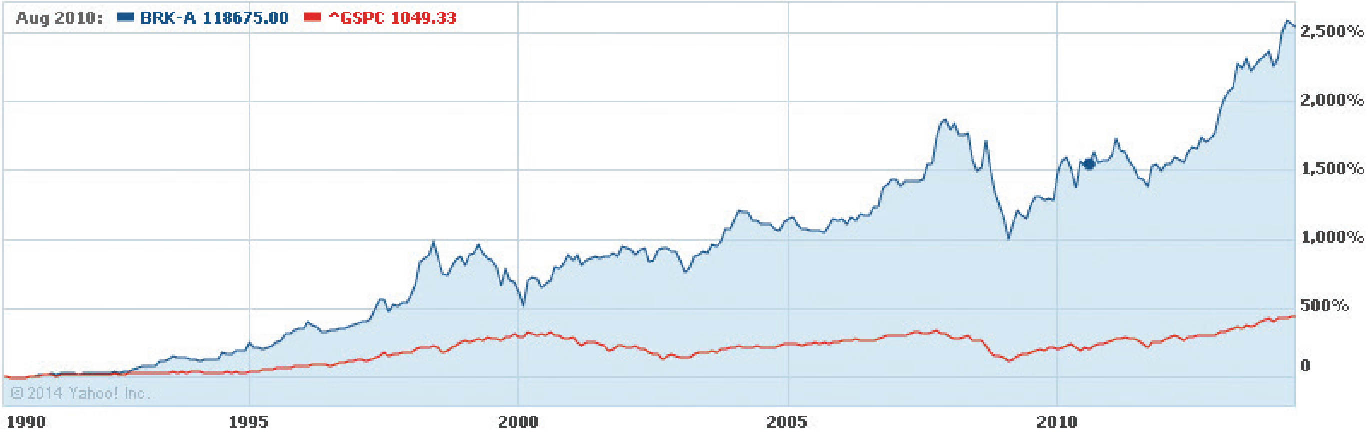
Although the doors opened at 7:00 a.m., the lines outside CenturyLink started forming during the wee hours of the night. I attended a reception with other like-minded investors the night before and stayed quite late, so I took a shuttle from my hotel that got me to CenturyLink around 6:15 a.m. I found a seat in the second level in the section closest to the stage on one side of the arena. There were four large video screens hanging from the ceiling.

Warren Buffett is BRK's Chief Executive Officer. He is a legend among value investors—and for good reason. His investment record is unmatched by any other investor in the last 100 years. Buffett invests the cash generated by BRK's businesses and its float—money generated largely by insurance premiums that does not belong to BRK, but that it temporarily holds. The $20 million float that came with Berkshire's 1967 purchase of National Indemnity has mushroomed to $77 billion. The company is a long-term shareholder of such iconic companies as American Express and Coca-Cola. Its list of wholly owned subsidiaries includes such well-known businesses as Dairy Queen, Fruit of the Loom, and GEICO. The meeting provides investors with the opportunity to hear Warren Buffett and his right-hand man, Charlie Munger, field attendee questions for about six hours. Munger is BRK's Vice-Chairman. In this capacity, Buffett describes Munger as "my partner."

THE EVENT

Although I have personally held BRK shares since September 1998, this was my first time at the company's annual meeting. What is most special about the BRK weekend is the rare chance it provides to surround oneself with like-minded practitioners and, of course, to learn from the masters. I have read notes taken by those attending the meeting for years, so I had a good idea of what the discussion would be like. What I had never experienced was the nuance, context, and body language of the event. Plus, I really appreciated the repartee between Buffett and Munger. Munger is generally a man of few words, but his comments were always pointed and direct. His dry sense of humor and the interplay between the two often had the audience laughing as well. None of these things can really be replicated electronically. There is nothing like being there.

A BRK movie that can only be seen by those in attendance kicked off the meeting at 8:30 a.m. This year's version lasted about 45 minutes. It included advertisements for a number of products marketed by BRK affiliates as well as those of some of the businesses of which the company is a shareholder. In addition, it included versions of the classic Sinatra song "My Way" sung by Buffett and Paul Anka (a Canadian singer, songwriter, and actor) and the Village People's song "YMCA." The words from both songs were modified so they were about BRK.



The above chart is a relative performance comparison of Berkshire Hathaway Inc. (blue line) and the S&P 500 (red line). *Source: Yahoo! Finance*

The equivalent of a trade show also takes place in CenturyLink's exhibition hall and helps the company generate tens of millions in revenues. In fact, Nebraska Furniture Mart (NFM) generated roughly $40 million in sales in the week surrounding the event (annual revenues are roughly $450 million). I took a brief trip to NFM. It is the largest store I have ever seen – the Omaha, Nebraska store I visited includes over 420,000 square feet of retail space and is on 77 acres of land. In addition to furniture, it sells many other items, including electronics, video games, and mobile phones.

SOME Q&A HIGHLIGHTS

The Q&A session provides investors with the opportunity to hear Buffett's and Munger's perspectives on a number of topics. One of the primary topics this year centered on Coca-Cola's executive compensation plan. BRK is the company's largest shareholder. I was among those who were disappointed when Buffett was not vocally opposed to the company's plan. He chose to abstain rather than vote against it and has come under considerable criticism for this decision.

While I would still have preferred to see BRK vote "no," I now think the actual vote is less significant than I had presumed originally. Buffett made it quite clear that he believes the executive compensation plan is excessive. Based on his representation that the plan is unlikely to be implemented as quickly as implied by the proxy statement, he seems to have gotten his message across.

An interesting side note to this topic came when Buffett characterized companies and their boards as social organizations. He insinuated that if you go in with guns blazing, you will quickly wear out your welcome and lose effectiveness. These comments provided rare insights into the way boards function. They also raised concerns about the ability to change the way company management teams are compensated. In the current structure, it seems unlikely that board members will vote against executive compensation plans.

Buffet reminded us that you can learn a lot by asking questions, and that you can learn even more by asking the "right" questions. Munger provided an anecdote about NBA Hall-of-Famer Larry Bird, who was able to sign the highest-valued contract in the NBA at the time by asking the right questions. Bird talked to every agent in the league and asked them, "Other than you, who is the best agent in the NBA?" When they all said the same person, Bird went on to sign with the "second" best agent in the league.

Buffett and Munger also spoke of the "removal of ignorance," acknowledging that we all, even very famous, successful investors, can continue to learn new lessons on a regular basis. For example, purchasing See's Candies in 1972 helped Buffett gain an understanding of the power of owning a brand. This lesson later enhanced his appreciation of Coke, which he started purchasing in 1988 at a split-adjusted price of less than $1.70/share, or roughly one-twenty-fifth of the current value. The lesson they learned regarding the power of brand recognition was perhaps more important than the financial rewards it provided. Munger elaborated on how he and Buffett have, over the years, focused on "ignorance removal" at every step and how this has been a source of bountiful returns.

My pilgrimage to Omaha was a great experience. I hope to go again next year.

Mergers & Acquisitions

SELLING A MEDICAL PRACTICE

BRIAN MACMILLAN
MANAGING DIRECTOR
MERGERS & ACQUISITIONS

The majority of medical practice owners do not know how to sell their practices, and many are not aware that selling to a third party is even an option. Since many doctors are not aware of their options, they frequently roll their practices into a hospital system and begin receiving a salary as an employee, sell their practices for less than they should, or simply close their doors when they are ready to retire. But with some guidance, physicians who are selling their practices can achieve better results for both themselves and their patients.

TIMING IS EVERYTHING!

The medical practice sales climate is currently excellent in the Baltimore-Washington metropolitan area. Physicians who own their practices and are considering retirement in the near future might want to think about selling their medical practices while conditions are favorable.

This is a great place to live, and many doctors across the country recognize this and are interested in owning a medical practice in our region. We have encountered numerous doctors who went to one of the many great medical schools in this area (Johns Hopkins University, University of Maryland, etc.), left the area to practice medicine, and are now interested in returning to the Baltimore-Washington area. Regardless of where they studied medicine, most doctors want to live and practice in an economically affluent area, and Maryland, DC, and Northern Virginia are home to many such areas. In addition, our region already has one of the highest physician-to-patient ratios, so there are already many local physicians who might be in the market to purchase their own practices.

Physicians who are thinking about selling their practices should start the sales process a few years before they plan to retire and before they begin to scale back their hours. The process of selling a practice can take six to nine months, on average, and the buyer will want the seller or sellers to stay on for some time so there is a smooth transition for the patients. This transition period could be anywhere from six months to several years.

THIS IS A GREAT PLACE TO LIVE, AND MANY DOCTORS ACROSS THE COUNTRY RECOGNIZE THIS AND ARE INTERESTED IN OWNING A MEDICAL PRACTICE IN OUR REGION

If a physician is interested in cutting back his or her hours, selling the practice before doing so may be the best option. Once the physician cuts office hours, the sale price for the practice will generally drop because the corresponding revenue generated by

the practice decreases. If the physician maintains normal hours until the sale, he or she can obtain a higher sale price and then establish a flexible work schedule (i.e., work fewer hours) as an employee or contractor for the new owner.

In any case, by starting the sale process earlier (while they have more flexibility) rather than later, physicians who own medical practices can avoid an emergency or "fire" sale, which usually means a reduced sale price and less favorable terms. There are specialty financing options currently available to physicians looking to buy medical practices, making it easier for them to complete the purchase. Lenders can finance up to 100 percent of the sale price and can provide terms up to 15 years, giving buyers more flexibility.

WORK WITH A MERGERS & ACQUISITIONS ADVISOR FOR THE BEST RESULT

The sales process can be complicated. Many physicians attempt to sell their practices on their own, and doing so ultimately takes away from the service they provide to their clients. Another pitfall physicians face is hiring a younger physician as an employee in hopes that the physician will buy the practice in a few years. More often than not, the younger physician does not end up buying the practice or is not willing to pay the owner a reasonable amount for it. This can lead to years wasted. In the end, the owner would need to start the sale from scratch.

Our Mergers & Acquisitions advisors will sit down with medical practice owners to understand their goals related to the sale of their practices. We will guide the owners through the entire process, allowing them to continue to focus on running and growing their practices. We will develop confidential marketing material to position the practice properly in the market, obtain multiple offers for the practice through our proprietary sales process, and ultimately help complete the sale.

> **WE WILL GUIDE THE OWNERS THROUGH THE ENTIRE PROCESS, ALLOWING THEM TO CONTINUE TO FOCUS ON RUNNING AND GROWING THEIR PRACTICE**

At BWFA, our Mergers & Acquisitions team has helped numerous medical practice owners sell their businesses and maximize the net proceeds from the sales. We help medical practice owners obtain the value they have created through their years of service.

If you know a physician who owns a medical practice, we would be happy to speak with him or her about how to maximize the net proceeds from the sale of the practice.

UNDERNEATH THE WAVES: SECTOR ROTATION BENEATH THE STOCK MARKET SEA

JIM EDWARDS
CFP® – FINANCIAL ADVISOR
AND PORTFOLIO MANAGER

The stock market can be compared to an ocean with individual companies representing boats traveling on its seas. There are times when certain parts of this ocean are choppier than others. In the first half of this year, for example, there wasn't much movement in the broader market (the ocean surface). At the same time, however, there has been a lot of movement beneath the surface.

Sector rotation, the shifting of money from one sector of the economy to another, can be illustrated by comparing the recent performance of biotech, social media, energy, and utility companies. In 2013, biotechnology and social media stocks experienced an extraordinary rally, and were up approximately 60% at the end of the year. The rally continued into 2014, but from late February to early May these stocks fell more than 20%, while the S&P achieved modest gains. *(see chart below)*

The one characteristic that both biotech and social media stocks had in common was their relative valuation. From a price-to-earnings perspective, both groups were trading at very expensive levels. Additionally, both of these industries have been popular because they are commonly characterized as "growth" industries. Growth companies are ones that are generally expected to grow at a faster rate than older, more mature businesses.

Other industry groups that were not riding the large swells in the latter half of 2013 were still trading at levels that could be considered fairly valued or, in some cases, even at a discount.

For example, in 2013, utility and energy stocks appreciated by approximately 7% and 21%, respectively. This performance was a far cry from the extraordinary returns (+60%) cited above. Nonetheless, through May 2014, utilities (+12%) and energy (+6%) had outperformed most other sectors. When we compare the performance of all these industries, the contrast is clear.
(see chart on next page)

One explanation for why Energy and Utility stocks are out performing the market while Biotech and Social Media stocks are under-performing is that money has flowed out of relatively "expensive" stocks and into relatively "cheap" stocks. Put another way, investors, as a whole, have been seeking out more "value."

RED *— GSPC: S&P 500 Index*
BLUE *— IBB: iShares NASDAQ Biotechnology ETF*
GREEN *— SOCL: Global X Social Media Index ETF*
Source: Yahoo! Finance

There may be several reasons for the notable rotation from a growth to a value orientation in stock selection. First, after a very strong 2013, money managers may be taking some profits and re-allocating funds toward more conservative and relatively inexpensive sectors. Second, many of the "cheaper" sectors are more cyclical in nature. If there is indeed a stronger economy this year, sectors such as energy and materials would likely benefit.

Beyond valuation, there are other factors that have called investor confidence into question. It may be that last year's strong market returns reflected hopeful expectations that this year's earnings would also be robust, as the economic recovery began to accelerate. At the beginning of the year, most economic forecasts reflected this notion. Additionally, geopolitical concerns in South America, Europe, and Asia have constantly been in 2014's headlines. The unusually cold and long winter across the US also clearly affected first-quarter economic activity. The latest estimate from the Bureau of Economic Analysis indicates that the US economy shrank during the first quarter. This represents the first quarterly contraction since 2011.

THERE CAN BE A "SEA-CHANGE" AT ANY MOMENT IN THE MARKETS

At times, the pace of the market's growth exceeds the rate of change in the underlying fundamentals. When this happens, corporate earnings ultimately need to grow enough (or catch up) to support the underlying change in the market's valuation. Otherwise the market will fall, to reflect the slower rate of growth. In this environment, if a company reports disappointing earnings or issues lackluster guidance, its shares are likely to decline.

Sector rotation is a phenomenon that occurs regularly in the stock market. There can be a "sea-change" at any moment in the markets. Currently, the market is in a wait-and-see state. For the five-year rally to continue, it will likely require clear signs that the pace of corporate earnings growth is accelerating and that broader economic growth is intact. Having a disciplined and diversified investment approach better positions us to weather the storms and to sail on when the wind is at our backs.

RED *— GSPC: S&P 500 Index*
BLUE *— IBB: iShares NASDAQ Biotechnology ETF*
GREEN *— SOCL: Global X Social Media Index ETF*
BROWN *— XLU: SPDR Utility ETF*
LIME GREEN *— XLE: SPDR Energy ETF*
Source: Yahoo! Finance

Tax Services

START PLANNING NOW FOR NEXT YEAR'S TAX RETURN

SHAROLYN HOCKEY
TAX MANAGER

Filing their income tax return is a chore most Americans dread. Once that return is filed, you probably stop thinking about your taxes, don't you? But there's no better time to start your tax planning. Now is the perfect time to organize your tax records and set yourself up for a less painful 2014 tax reporting process. Here are some tips to help you start to plan for this year's taxes:

1. **Consider quarterly estimated tax payments.** If you have income that is not subject to withholding, you may need to make estimated tax payments to avoid the assessment of penalties and interest. Examples of income that may not be subject to withholding are distributions from retirement accounts, Social Security benefits, and gain on the sale of certain investments.

2. **Plan ahead for life changes.** Many life events can impact the amount of tax you owe, such as having a child, buying a home, or changing your marital status. Taxpayers may need to adjust their payroll withholdings or their quarterly estimated tax payments during the year when these events occur.

3. **Start your 2014 recordkeeping now.** Getting organized early can help you later in capturing all the deductions to which you're entitled. Sole proprietors in particular should start early, and they should already be recording 2014 mileage in the written log required by the IRS for the business mileage deduction. Taxpayers should also capture miles driven for medical purposes or for charitable activities.

   Create a place for your family to keep tax records during the year. Be sure to get a receipt when you drop off a noncash donation, and put it along with a description of the item(s) donated and their value in the designated place. Keep receipts for the cash contributions you make as well. Making sure your family puts tax records in the same place during the year will help avoid a frantic search for misplaced records come tax time next year.

4. **Keep records safe and stay organized.** Put your 2013 tax return and supporting records in a safe place. Many taxpayers need a copy of their prior year's return when applying for financial aid or a home loan.

5. **Keep up with changes.** Tax laws change every year, and taxpayers need to be aware of the changes that will impact their returns in order to plan appropriately. Taxpayers who don't use a professional tax preparer need to pay particular attention to changes that will affect them. The IRS issues tips about law changes and many other topics three days each week during the summer—you can subscribe to receive them by email or get them at IRS.gov or IRS2Go, the IRS's mobile app.

6. **Don't ignore correspondence from the IRS.** More taxpayers than ever are receiving notices from the IRS, many of which are computer-generated. If you receive a notice, do not ignore it. Be sure that you read it completely, and follow the instructions provided to respond appropriately, especially if you disagree with any change or adjustment proposed by the IRS.

   Getting help from the IRS, however, is harder than ever for US taxpayers. The severe budget cuts at the IRS became more evident to taxpayers who reached out for assistance during the recent tax season. Many callers got a recording advising that the call limit had been reached for the day and that they would have to call another day. Other callers simply couldn't get through at all. To make matters worse, tax courts have ruled against taxpayers who relied on bad advice received from the IRS used to support a position on a return.

7. **Shop early for a tax advisor.** A professional tax advisor can assist with responding to notices, calculating estimated quarterly income tax projections, and making recommendations based on your specific tax situation. If you don't currently use a professional tax advisor but want to hire one, it's best to start your search early. The IRS highlights the fact that taxpayers are responsible for the accuracy of their own returns, no matter who prepares them. Therefore, you should exercise care when choosing a tax preparer. For tips on choosing a preparer, go to IRS.gov.

REMEMBER THAT LAYING A LITTLE GROUNDWORK NOW CAN HAVE A BIG PAYOFF AT TAX TIME NEXT YEAR!

Community Spotlight

MOSAIC COMMUNITY SERVICES

MIKE LAVIÑA
PORTFOLIO MANAGER
AND DIRECTOR OF TRADING

Last quarter, BWFA announced a partnership with the Community Foundation of Howard County as part of our effort to facilitate charitable giving in our community. We believe that giving back to the community not only benefits the recipients of those gifts, but also enriches the giver and the community at large. In that spirit, we are delighted to highlight the work of Mosaic Community Services. BWFA has a personal connection to Mosaic. My sister and the brother of our Chief Investment Officer, Rob Williams, have both been clients of Mosaic Community Services. Rob and I both agree that our lives and the lives of our loved ones have been transformed through their care.

GIVING BACK TO THE COMMUNITY NOT ONLY BENEFITS THE RECIPIENTS OF THOSE GIFTS, BUT ALSO ENRICHES THE GIVER

About 13 years ago, my sister, Clare, went off to college in New York City. She had received a scholarship to attend Fordham College at Lincoln Center for drama. She was an aspiring actress in the prime of her life with a scholarship to attend the college of her choice. Late in the fall of her freshman year, she came home. As our family gathered, we realized that something was not right with Clare. By Christmas, we learned that Clare was suffering from a serious mental illness. She was eventually diagnosed with schizoaffective disorder.

After many years in and out of the hospital and a handful of diagnoses, it became clear that college would have to wait and that Clare's future would be uncertain. She struggled to hold a job, find peers with whom she could socialize, and cope with her day-to-day activities. This led to depression and a worsening of her condition. Through a lot of hard work, research, and dedication, our mother learned about a residential program for individuals suffering with mental illness. She found Mosaic Community Services.

MOSAIC IS NOT A DESTINATION. IT IS A SUPPORT SYSTEM THAT, AT ITS BEST, HELPS TO ASSIST CLIENTS IN RECOVERING FROM MENTAL ILLNESS AND/OR ADDICTION.

The significance of finding an organization that could provide a range of programs and services for our loved one cannot be overstated. Knowing that Clare would have professional support in all aspects of her life for as long as she needed it was, and continues to be, a tremendous comfort to our entire family.

Today, Clare has safe and affordable housing along with support services that help her monitor her daily routine and medications. She attends a day program where she is able to work on skills and get counseling. Most importantly, she is able to interact with a community that can understand her challenges and participate in programs that push her to make the most out of her life. Mosaic is not a destination. It is a support system that, at its best, helps to assist clients in recovering from mental illness and/or addiction.

I LIKE TO REFER TO MOSAIC AS AN "UNSUNG HERO IN OUR COMMUNITY"

Without treatment, mental illness often leads to an unacceptably high social cost. The cycle is all too familiar: unemployment, homelessness, and drug-abuse, followed by hospitalization without insurance, prison, and possibly suicide. This is why my colleague Rob Williams and I are so proud to support Mosaic. We understand, through our personal connections, the important role this organization plays in our community. I like to refer to Mosaic as an "unsung hero in our community." Mosaic's 700 professional staff members are out there every day providing care and support for a part of our community that is too often stigmatized, misunderstood, and avoided.

In the state of Maryland, there are more than 2,000 non-profit organizations dedicated to hundreds of different causes. Many of us would like to get behind a cause, and there are ample opportunities to supply monetary gifts to one. This is why BWFA supports giving back to the community in every way we can. And it is why I, as a member of the Board of Directors, have agreed to be a part of the fundraising effort for Mosaic. In my own family, we have identified a charitable giving strategy that fits in with our financial plans and goals. We encourage you and your family to do the same for whatever cause is close to you.

What's Happening at BWFA

EMPLOYEE SPOTLIGHT: BENJAMIN DORSEY

BEN DORSEY
CPA, CFP®, MST –
DIRECTOR OF TAX SERVICES

Q. TELL US A BIT ABOUT YOURSELF. WHERE DID YOU GROW UP?

A. I grew up in Mt. Airy, MD and went to college in Maryland at Towson University and University of Baltimore.

Q. WHEN DID YOU FIRST KNOW YOU WANTED TO WORK AS A TAX PROFESSIONAL?

A. The corporate accounting scandals in the early 2000's put a premium on CPAs coming into the work force, and I had always enjoyed working with numbers. My interests and the job market lined up perfectly.

Q. WHAT BROUGHT YOU TO BWFA, AND WHAT DO YOU LIKE BEST ABOUT WORKING HERE?

A. I was looking for an opportunity to utilize my tax background while having an opportunity to be part of a holistic, full-service financial service team. What do I like best about working at BWFA? Most tax service organizations are so focused on tax returns that a lot of related strategic financial planning solutions and opportunities are missed. BWFA has an experienced and highly trained staff that allows coordination and execution of effective, long-term financial strategies.

Q. YOU HAVE COMPLETED YOUR FIRST SEASON AS TAX DIRECTOR OF BWFA; HOW DO YOU FEEL IT WENT?

A. I thought the season went very well; we received a lot of positive feedback from clients and also feedback that will assist us in servicing clients in future years. Our team worked extremely hard and we were able to meet the deadlines we set out to meet.

Q. WHAT WOULD CLIENTS BE SURPRISED TO KNOW ABOUT YOU?

A. My wife and I went to the same high school, but we didn't start dating until college; she is pregnant with our first child, due July 24th.

MARK STINSON *Celebrates* 10 YEARS WITH BWFA

"Just as it takes a child to raise a parent, it takes clients to train an advisor. I have learned so much from our clients about what is important to them and it has made me a much better advisor. We have great clients and working with them during the last 10 years has been a privilege."

– Mark

TAKE ME OUT TO THE BALL GAME

The BWFA Tax Team spent a beautiful afternoon at Nationals Park unwinding from the busy tax season.

BWFA WAS A PROUD SPONSOR

of the Preakness Celebration Hot Air Balloon Festival held at Turf Valley on May 15th and 16th

GUESS WHICH BWFA STAFF MEMBER THIS BABY GREW UP TO BE! Email your answer to Meghan Manas **mmanas@bwfa.com** for a chance to **WIN A BWFA BAG!**

ADMINISTRATIVE PROFESSIONALS' DAY DID NOT GO UNNOTICED AT BWFA! We celebrated our team with lunch and flowers.

Save The Date

FOR ONE OF OUR UPCOMING EVENTS LISTED BELOW

Contact Meghan Manas, mmanas@bwfa.com, for help with registering.

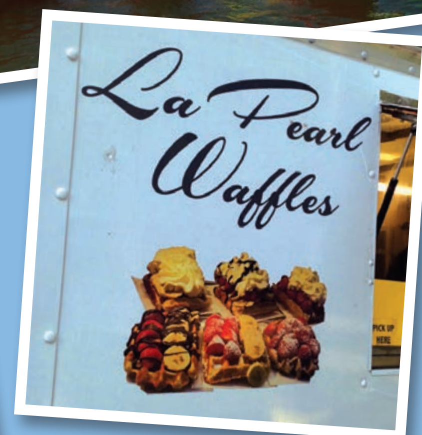
DATE	EVENT	LOCATION	TIME
7-17-14	APLFCU Advisor Day	APL Main Branch – 11050 Johns Hopkins Rd, Laurel, MD 20723	10:00 a.m. – 2:00 p.m.
8-16-14	2 Miles for 2 Hearts Memorial Run	Historic Ellicott City	8:30 Start Time
8-28-14	APLFCU Advisor Day	APL Campus Branch – 11100 Johns Hopkins Rd, Laurel MD 20723	10:00 a.m. – 2:00 p.m.
9-10-14	Elder Care and Financial Planning Seminar	JHU APL – 11100 Johns Hopkins Rd, Laurel MD 20723	6:00 p.m. – 9:00 p.m.

BWFA *Team Building Trip*

The staff recently spent a day bonding while kayaking on the Potomac! As you can see from the photos below, WE HAD A WONDERFUL DAY!











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