[VINTAGE] FINANCIAL SERVICES, LLC

On the [MONEY]

Registered Investment Advisor | www.VintageFS.com | Fall 2013 Vol. XXIX No. III

From the Grapevine...

Vintage has been named a finalist for an *Investment News* Best Practices award based on our innovative human capital strategies and firm performance. The award winners will be announced later in September at an event in Chicago. This year marks the first time the awards will be given. Finalists were selected from an extensive benchmarking study conducted earlier in the year with Moss Adams.

Congratulations to Jack McCloskey, the newest CFP® (Certified Financial Planner) at Vintage. Jack passed the ten hour board exam in 2011 but needed to fulfill the experience requirement before officially becoming a CFP®. Vintage now has the most fee only CFPs of any firm in Washtenaw County.

We've got so much exciting news at Vintage that we've run out of room in this column. See the articles on page two that cover new staff additions and a milestone for Frank.

HOW MUCH WILL YOU NEED TO RETIRE?

Financial planners often suggest that retirees need 60-80% of their pre-retirement income to live on in retirement. That's a pretty wide range and when we've asked clients they usually say they want 100%. You can attempt to draw up a budget but it's difficult to predict what things will cost 20-30 years down the road. And most people that retired a decade ago probably didn't think to include the data plan cost for their iPad.

At Vintage we've taken a different approach to determining retirement income needs for the past fifteen years and it has worked very well. We begin by looking at the household gross income and then deduct some major costs that often change significantly in retirement. These include income taxes, mortgage payments and retirement and education savings. After the deductions we get a pretty good idea of a household's after-tax disposable income which we refer to as their "Lifestyle" income.

In planning for retirement we'll then add back in any mortgage payments that may continue into retirement and factor in what income taxes may be on the lower income need. Over the last fifteen years we've helped an awful lot of clients through the retirement process and, despite some very challenging investment markets, our Lifestyle method has worked out very well. If you'd like to learn more about our retirement planning services please contact our office or see www.vintagefs.com.

SAVE ON COLLEGE (AND MORE)

In 2013 many people will see their federal long term capital gain tax rate jump from 15% to 18.8% or 23.8% depending on their income level. Yet, for lower income people the 0% capital gain rate was extended. This creates a nice tax savings opportunity for parents or grandparents that are paying for a child or grandchild's college costs, house down payment or other support.

Let's say Grandpa and Grandma want to pick up this year's college bill for their grandson. They have a stock mutual fund that they bought a few years back and today it is worth $28,000, coincidentally the same amount that the college cost will be. Their cost basis is just $14,000 so they would be facing a capital gain of $14,000, which at their 23.8% federal tax rate, would result in a tax bill of $3,332 if they sold it. Instead they can gift the shares to their grandson (in another coincidence the annual gift tax exclusion is $14,000 per person so grandpa and grandma can combine their gift amount for the $28,000).

The grandson only earned a few thousand dollars this year so he's in a 0% capital gain tax bracket. When he sells the shares he would use grandpa and grandma's cost basis so he would have a $14,000 capital gain but there would be no federal tax on it. He can then use the full $28,000 (perhaps minus any state capital gain tax) for his college costs.

Grandpa and grandma were able to avoid the $3,332 in taxes by gifting the shares rather than selling the fund, paying the taxes, and then gifting. This move can work well for any higher income parents or grandparents that are gifting funds to their lower income family members. It also works if there are working children that are supporting elderly parents. If you'd like to see if this concept works in your situation please contact our office or your tax preparer.

VINTAGE GROWING

Vintage has been growing at a rapid rate over the past year with big increases in the number of clients we serve and our assets under management. In order to handle this growth and plan for the future we've hired two new people this summer.

The first, Jim Burns, joined us in July after five years at Plante Moran, most recently in their wealth management division. Jim is a CPA and has extensive experience with accounting, tax preparation and wealth management. He's a graduate of Hillsdale College with a BA degree in Accounting. He will take the CFP board exam in November.

Jim is an avid golfer and played on the Hillsdale Varsity team and he also coaches hockey at the high school level.

Also joining us on the administrative side is Niki Barnes. Niki most recently managed a small service business in downtown Ann Arbor. She attended Eastern Michigan University with a major in Math and Physics. She will be supporting Candace, initially on a part-time basis. Niki lives in Ann Arbor with her three daughters.

FRANK MARKS 30 YEARS

On September 12th Frank Moore will mark thirty years in the investment industry. After graduating from the University of Michigan in May, 1983, Frank joined a Wall Street based firm selling mutual funds and became licensed to sell securities in September that year. After just 15 months he determined that if he was going to stay in the business he'd do it right and, along with Jennifer (who he later married), they formed Vintage at the beginning of 1985.

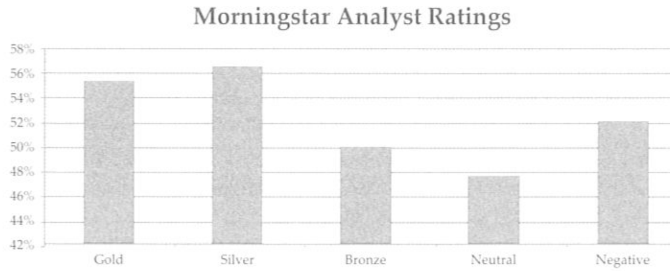
INVESTING BY THE STARS?

Many investors shop for mutual fund investments much like they shop for a car or refrigerator. They do some research and look for the highest rated product in their price range. In the mutual fund marketplace Morningstar has made it easy for investors with their star rating system. For over 25 years they've rated mutual funds from one star (the lowest grade) to five stars. Unfortunately investing by the stars may not produce the results many investors expect.

The typical investor in 2012 put most all of their investment dollars into bond mutual funds (and actually sold some of their stock funds). The largest bond fund, and one of the most highly rated by Morningstar, is the PIMCO Total Return fund. At least one of the fund's share classes was rated five stars, Morningstar also gave it a top analyst rating of Gold and the fund manager, Bill Gross, is a three time winner as Morningstar Portfolio Manager of the Year. Yet investors that bought the fund at the end of 2012 have lost about 3% or more (depending on their share class) through mid-August. Over the same period the average mutual fund has gained 11.0%.

Unlike cars and refrigerators, mutual funds change regularly due to their portfolio composition, manager, asset class performance and other factors. Morningstar's star ratings are largely based on quantitative data with a heavy reliance on past performance. While it's easy to quantify the past it's difficult to predict the future and that's where Morningstar's star ratings falter.

In an effort to improve the predictive nature of their ratings, Morningstar introduced five new analyst ratings of Gold, Silver, Bronze, Neutral and Negative. Unfortunately, these don't seem to be much of an improvement. In looking at the 2013 performance (thru August 14) of the Gold rated funds only 55.3% outperformed their peers while 52.1% of the Negative rated funds outperformed. While this isn't an exhaustive study of the ratings, it's clear that many investors put more credence into Morningstar's ratings than they deserve.



Percentage of funds outperforming their peer group for 2013 through 8/14/13 according to Morningstar.

At Vintage we've used Morningstar's research for over 25 years but we've paid little attention to their ratings. Picking the better performing mutual funds is challenging and we find that, even with good choices, we can only add 1-2% in better performance to a diversified portfolio. Instead, we focus most of our efforts in the area of asset allocation.

If you've read our newsletter or E-News over the past couple years you know we've been concerned about the bond market's very low yields and the likelihood that these "safe" investments could suffer losses as they have this year. The difference in returns this year between stocks and bonds illustrates the importance of asset allocation. Through mid-August the S&P 500 index has gained over 18% while the Barclays US Aggregate Bond index has lost 2.7%. The difference in returns between the two asset classes, over 20% so far this year, offers excellent opportunities to improve investment performance by getting the asset allocation decision right. If you'd like to learn more about our strategies please see our website or call our office for a complimentary meeting.

VINTAGE FINANCIAL SERVICES OFFERS

Fee only investment management and financial planning services.
Minimum portfolio $250,000
(401(k) balance may count toward minimum).

For a no charge, no obligation initial interview please call our office at (734) 668-4040 or (800) 666-9237 or e-mail:

Frank Moore, MS, CFP Frank.Moore@VintageFS.com
Todd Perry, CFP, CIMA Todd.Perry@VintageFS.com
Joe Henderson, CFP, CLU Joe.Henderson@VintageFS.com
Or visit our website at www.VintageFS.com

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Plan to succeed.

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Ann Arbor, MI 48104

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INSIDE THIS ISSUE: