

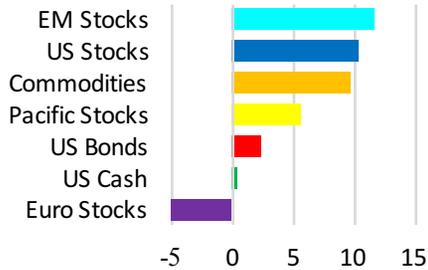


Markets Recap

US Stocks surged in November in the wake of the election. EM Stocks still lead all asset classes YTD, despite cooling off more than 5%. Elsewhere, rate hike fears fueled a bond selloff, reducing YTD returns to 2.3%. European stocks continued their slide as banking sector woes and political upheaval continue.

YTD Return (%) as of 11/30

Asset Classes



Location, Location, Location

Many Cape Ann Capital portfolios contain both traditional tax-deferred IRA accounts and taxable accounts. Having two account types with very different tax treatments creates opportunities.

Some investments benefit more from the tax shelter offered by IRAs than others. The IRA portion of a portfolio is wasted on a growth stock that pays no dividends or a variable annuity that already has its own tax benefits. The IRA should be reserved for investments that spin off lots of ordinary income every year. For example, a High Yield Bond Fund from our buy list, which invests mostly in junk bonds, returned 6.17% per year over the last ten years if held inside of an IRA. For investors in the highest tax bracket (currently 39.5%), the

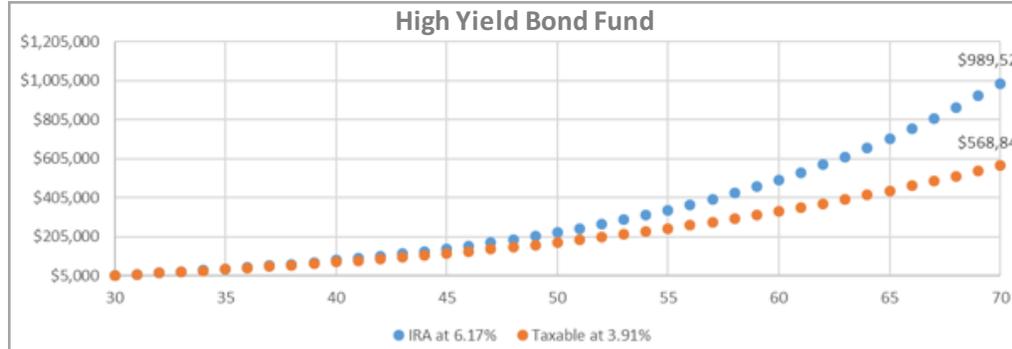


Figure 1: Assumptions: Investor, age 30 and in the top tax bracket, invests \$5,500 per year to age 49. At age 50 he or she bumps the investment to \$6,500 per year to age 70.

net-of-tax return drops to 3.91% per year if held in a taxable account. The impact of a 2.26 percentage point **location benefit** over a lifetime of investing is enormous. Above, **Figure 1** compares a 6.17% return to a 3.91% return compounded over 40 years. In this example smart positioning creates a

\$420,000 wealth advantage.

Figure 2 below shows the annual location benefit for each fund on the Cape Ann Capital Buy List. This information guides the positioning of assets for clients with both IRA and taxable accounts within the same portfolio. We fill IRA accounts starting from

Category	Yrs	Pre-tax Rtn	Post-Tax Rtn	Location Benefit
Commodities Broad Basket Fund	15	-4.45	-7.67	3.22
Emg Mkts Bond Fund	10	6.51	3.92	2.59
High Yield Bond Fund	10	6.17	3.91	2.26
Small Value Fund	15	10.24	8.23	2.01
World Bond Fund	10	5.33	3.49	1.84
Mid-Cap Growth Fund	15	9.12	7.33	1.79
Pacific/Asia ex-Japan Stk Fund	15	11.19	9.41	1.78
Intermediate-Term Govt Fund	10	5.20	3.45	1.75
Diversified Emerging Mkts Fund	15	12.91	11.25	1.66
Foreign Small/Mid Value Fund	15	10.83	9.39	1.44
World Allocation Fund	15	11.11	9.82	1.29
Small Blend Fund	15	10.30	9.04	1.26
World Stock Fund	15	8.20	7.03	1.17
Mid-Cap Value Fund	15	10.81	9.75	1.06
Communications Fund	15	13.79	12.82	0.97
Ultrashort Bond Fund	5	1.60	0.91	0.69
Small Growth Fund	15	8.93	8.29	0.64
Muni National Short Fund	5	0.93	0.93	0.00
Commodities Broad Basket Fund	10	-6.53	-6.53	0.00

Figure 2: Post-tax returns from Morningstar, assuming income and short-term cap gain distributions taxed at the highest tax bracket at time of distribution, and long-term cap gain distributions at 15%. Cap-gains effects resulting from selling fund at end of the period ignored. State/local taxes ignored.

the top of the list and taxable accounts starting from the bottom.

When clients reach age 70½ and are required to start withdrawing from their IRA we satisfy their required minimum distribution (RMD) by moving **shares** from the IRA to the taxable account. We use the information in **Figure 2** to identify the fund in the IRA with the smallest location benefit, we calculate the number of shares of that fund that need to be moved to satisfy the RMD and we move these shares **after** the fund has paid out all year-end distributions. Waiting to the end of the year allows one last distribution to be collected tax-free. Most investors move **cash** out of their IRA to satisfy their RMD. We have worked with TD Ameritrade Institutional over the last several years to work out procedures to move **shares** and make sure that the 1099R which TD submits to the IRS meets all RMD requirements. Moving shares is cost free, it keeps the portfolio fully invested at all times and, once the initial paper work is on file at TD, is completely seamless for our clients. We “invented” this procedure at TD. We believe we are the only advisor using it at this time. TD’s willingness to work with us on this is just one more reason why we believe TD Ameritrade Institutional is the best possible custodian for your assets. Advisors who raise cash to satisfy RMDs generate revenue for TD. Moving shares does not. We are proud to partner with a custodian that takes its fiduciary responsibilities very seriously. When presented with two options a fiduciary **must** pick the one that is in the best interest of the client. Amen!

Dave, Jim & Jeremy

Send any feedback to:
info@capeanncapital.com

