Condor Capital WEALTH MANAGEMENT

Condor Capital Reviews 3rd Quarter 2013

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Stocks across the globe generally rallied after the Federal Reserve did not change its bond buying program.

Treasury yields moved slightly higher but corporate debt generated a positive return.

Despite the Fed's announcement, higher interest rates are inevitable. Political uncertainty is here to stay, so maintaining a long-term perspective is critical.

October 2013

The direction of the Federal Reserve's monetary policy remained at the forefront of investors' minds during the quarter, driving sentiment and returns during the period. Despite lingering questions regarding the health of the global economy, the S&P 500 Index gained 5.24% over the last three months.

During the period, equity performance was distinctly split along market-capitalization and style lines, with growth and smaller stocks beating value-oriented and large-cap names. The technology sector led the market on the upside, led by a rebound in certain mobile device makers and strong returns for several social media-related names. Conversely, the real estate and consumer defensive sectors lagged amid continued worries over the impact of potentially higher interest rates on these typically high dividend names. As encouraging economic data stoked hopes that the Eurozone has finally emerged from recession and investors sought relatively cheaper stocks, developed international markets outperformed. With that said, the MSCI EAFE Index gained 11.70% during the quarter. Stocks in developing nations rebounded as pessimism abated, to a degree. Against this backdrop, the MSCI Emerging Market Index gained 5.86%.

After substantial speculation that the Federal Reserve would taper its open-ended bond buying initiative, Chairman Ben Bernanke shocked the markets by leaving the program as-is. He noted that the Board felt that the pace of economic and employment growth remained too weak to warrant such a move, particularly given that inflation remains below its target level. This decision had a marked impact on all areas of the fixed income market. Although it fell after the Fed's announcement, the yield on the 10-year Treasury rose for the period overall, ending at 2.62%. Corporate bonds managed to generate a positive return thanks to easing interest rate concerns, with lower quality debt leading the way. The Citi Corporate Bond Index gained 0.80%, while the CSFB High Yield Index rose by 2.39%. Further segment outflows and renewed credit quality concerns in the wake of Detroit's bankruptcy continued to plague municipal bonds. The Lipper Municipal Fund Index fell by 0.78%.

Outlook – For the second straight quarter, investors remained fixated on the actions of the Federal Reserve. While the Board surprised investors by leaving its rate of bond purchases unchanged, we feel that tapering is inevitable. Therefore, the downward move in yields after the announcement is likely a short-term retracement as part of a longer-term uptrend. With that being said, we remain focused on areas of the bond market that have displayed a lower sensitivity to rising rates, such as bonds with near-term maturities, bank loans, and non-investment grade debt. Although municipal bonds have been hindered by jitters about Puerto Rican and Detroit debt, state revenues have risen for a record 14 straight quarters. Combined with a favorable supply/demand picture as issuance has declined, and attractive tax-equivalent yields, municipal bonds should continue to play a role for those in high tax brackets.

Although stocks no longer offer the steep discounts they did in prior years, valuation multiples remain reasonable given the high level of corporate profitability and steady economic growth in the U.S. In addition, with revenue gains proving elusive, corporations have returned record amounts of capital to shareholders in the form of dividends and share repurchases. Since dividend payout ratios remain low and cash levels high, companies have ample ability to boost payouts, and therefore equities' total return, going forward.

However, uncertainty, political infighting, and brinksmanship surrounding the Federal budget and debt ceiling are likely to continue, possibly until the 2016 mid-term elections. Despite incessant media coverage, it is important to note that government shut downs are not uncommon, with this being the 18th occurrence since 1976. When considering your investment goals, it is important to maintain a long-term perspective and step back from the day-to-day headlines.

See disclaimer on final page

Income tax basis can be important when deciding whether to make gifts now or transfer property at your death. When you make a gift of property, the recipient generally receives your basis in the property. When you transfer property at your death, the recipient generally receives a basis equal to the fair market value of the property. The difference can substantially affect the amount of taxable gain when the recipient sells the property.

Estate Planning and Income Tax Basis

Income tax basis can be important when deciding whether to make gifts now or transfer property at your death. This is because the income tax basis of the person receiving the property depends on whether the transfer is by gift or at death. This, in turn, affects the amount of taxable gain subject to income tax when the person sells the property.

What is income tax basis?

Income tax basis is the base figure you use when determining whether you have recognized capital gain or loss on the sale of property for income tax purposes. (Gain or loss on the sale of property equals the difference between your adjusted tax basis and the amount you realize upon the sale of the property.) When you purchase property, your basis is generally equal to the purchase price. However, there may be some adjustments made to basis.

What is the income tax basis for property you receive by gift?

When you receive a gift, you generally take the donor's basis in the property. (This is often referred to as a "carryover" or "transferred" basis.) The carried-over basis is increased--but not above fair market value (FMV)--by any gift tax paid that is attributable to appreciation in value of the gift (appreciation is equal to the excess of FMV over the donor's basis in the gift immediately before the gift). However, for purpose of determining loss on a subsequent sale, the carried-over basis cannot exceed the FMV of the property at the time of the gift.

Example: *Say your father gives you stock worth $1,000. He purchased the stock for $500. Assume the gift incurs no gift tax. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is $500. If you sold the stock for $1,000, you would have gain of $500 ($1,000 received minus $500 basis).*

Now assume that the stock is only worth $200 at the time of the gift and you sell it for $200. Your basis in the stock, for purpose of determining gain on the sale of the stock, is still $500; but your basis for purpose of determining loss is $200. You do not pay tax on the sale of the stock. You do not recognize a loss either. In this case, your father should have sold the stock (and recognized the loss of $300--his basis of $500 minus $200 received) and then transferred the sales proceeds to you as a gift. (You are not permitted to transfer losses.)

What is the income tax basis for property you inherit?

When you inherit property, you generally receive an initial basis in property equal to the property's FMV. The FMV is established on the date of death or on an alternate valuation date six months after death. This is often referred to as a "stepped-up basis," since basis is typically stepped up to FMV. However, basis can also be "stepped down" to FMV.

Example: *Say your mother leaves you stock worth $1,000 at her death. She purchased the stock for $500. Your basis in the stock is a stepped-up basis of $1,000. If you sold the stock for $1,000, you would have no gain ($1,000 received minus $1,000 basis).*

Now assume that the stock is only worth $200 at the time of your mother's death. Your basis in the stock is a stepped-down basis of $200. If you sold the stock for more than $200, you would have gain.

Make gift now or transfer at death?

As the following example shows, income tax basis can be important when deciding whether to make gifts now or transfer property at your death.

Example: *You purchased land for $25,000. It is now worth $250,000. You give the property to your child (assume the gift incurs no gift tax), who then has a tax basis of $25,000. If your child sells the land for $250,000, your child would have taxable gain of $225,000 ($250,000 sales proceeds minus $25,000 basis).*

If, instead, you kept the land and transferred it to your child at your death when the land is worth $250,000, your child would have a tax basis of $250,000. If your child sells the land for $250,000, your child would have no taxable gain ($250,000 sales proceeds minus $250,000 basis).

In addition to income tax basis, you might consider the following questions:

- Will making gifts reduce your combined gift and estate taxes? For example, future appreciation on gifted property is removed from your gross estate for federal estate tax purposes.
- Does the recipient need a gift now or can it wait? How long would a recipient have to wait until your death?
- What are the marginal income tax rates of you and the recipient?
- Do you have other property or cash that you could give?

Can you afford to make a gift now?

The best benefits are those that meet the needs of your employees. Before making any assumptions, survey your employees to see what benefits they value the most.

Show Them the Love: Low-Cost, High-Value Employee Benefits

As a small business owner, you are probably aware of the importance of offering a basic employee benefit package that includes health and disability insurance, and a retirement savings plan. However, recruiting and retaining top talent often requires going above and beyond the basics. By offering creative, low-cost benefit programs, you can differentiate your business from other potential employers.

Flexible work environments

In today's hectic world, time is nearly as valuable as money. Consider the following statistics from the Families and Work Institute (Source: National Study of the Changing Workforce, 2008):

- 59% of employees don't feel they have enough time for themselves
- 61% believe they don't have enough time for their spouses/partners
- 75% (more than 7 out of 10) feel they don't have enough time for their children

For these reasons, one of the most popular and appreciated employee benefits available today is a flexible work environment. Once the hallmark of only small and "hip" technology companies, flexible work arrangements are now offered by larger, more established organizations. Some examples of flexible work programs include:

- Flex schedules: work hours that are outside the norms, such as 7 a.m. to 4 p.m. instead of 8 a.m. to 5 p.m.
- Condensed work weeks: for example, working four 10-hour days instead of five 8-hour days
- Telecommuting: working from home or another remote location
- Job-sharing: allowing two or more employees to "share" the same job, essentially doing the work of one full-time employee. For example, Jan works Monday through Wednesday noon, while Sam works Wednesday afternoon through Friday.

Allowing your employees to tailor their work schedules based on their individual needs demonstrates a great deal of respect and can generate an enormous amount of loyalty in return. Even if your business requires employees to be on-site during standard operating hours, having a process in place that supports occasional paid time off to attend to outside obligations such as doctors' appointments or family commitments and even unexpected emergencies can have enormously positive effects, too. In some cases, these benefits have no costs associated with them, while in others, the costs may be minimal (e.g., the price of a smartphone or laptop to help employees remain productive on the go).

Free food

Another popular perk at smaller companies is a well-stocked kitchen. Soft drinks, snacks, and inexpensive meal items such as cereal and bagels can go a long way toward fostering good will (and keeping energy up!). Providing healthy options, such as fruit, nuts, and smoothies, is a subtle way to show employees that you value their well-being.

Social activities

Sponsoring periodic activities can help workers relax and get to know one another. Such events don't need to take much time out of the day, but can do wonders for building morale. Bring in lunch or schedule an office team trivia competition or group outing. Perhaps your employees would like to share their little-known skills through an art exhibition or talent show. If you work in a particular industry in which colleagues share a common passion, consider organizing events around that interest. For example, a sporting goods retailer could close up early on a slow-business afternoon and go for a hike or bike ride.

Concierge services, discounts

You may also be able to negotiate with other local companies for employee discounts and services. Laundry services, dry cleaning pickup/drop-off, and meal providers that can deliver hot, family-sized take-home dinners may help employees save both time and worry--and stay focused on the job.

Financial planning/education

For many people, money worries can be distracting and time consuming. Consider inviting a local financial professional into your office to provide counseling sessions for your employees. While you don't necessarily have to pay for any services provided, simply offering the opportunity to get such help during work hours will be appreciated by your workforce.

Survey your employees

The best benefits are those that meet the needs of your employees. Before making any assumptions, survey your employees to see what benefits they value the most. Then, respond to the most commonly identified concerns and desires with creative solutions. That can encourage employees to respond in kind through hard work and dedication.

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Please remember to contact Condor Capital Management if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, or revising our previous recommendations and/or services. Please also advise us if you would like to impose, add, or modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement as set forth on Form ADV Part II A/B continues to remain available for your review upon request.

Is it true that my child can receive Social Security benefits based on my earnings record?

Your child--whether he or she is your biological child, adopted child, or stepchild—may be able to receive Social Security monthly benefits based on your earnings record if you're receiving disability or retirement benefits from Social Security, or in the event of your death. These often overlooked benefits can provide steady income for your family when it's needed the most.

How much will your child receive from Social Security? When you start receiving retirement or disability benefits, your child may be eligible to receive up to 50% of your benefit. When you die, your child may be eligible to receive up to 75% of your basic benefit (the benefit that the Social Security Administration calculates you would have received if you had reached full retirement age at the time of your death). Various factors will affect the amount of your child's benefit, including whether other family members are also receiving benefits on your earnings record.

To receive Social Security benefits based on your record, your child must generally be a dependent under age 18 (or age 19 if a full-time student in grade 12 or lower) and unmarried. However, if your unmarried child is disabled and was disabled before age 22, he or she can qualify for benefits based on your record at any age; benefits for a disabled child may end, though, if your child marries or is no longer considered disabled.

You can find out more about family benefits based on your earnings record by checking your Social Security Statement. To access your statement, sign up for a *my* SocialSecurity account at the Social Security Administration's website, www.socialsecurity.gov. Your statement will give you important information about Social Security that you can use to plan for your family's financial future. This includes how you and your family members qualify for benefits, estimates of your future retirement and disability benefits, and what survivors benefits your child and other family members might receive if you die.

Do I need to make any changes to my Medicare coverage for next year?

If you're currently enrolled in Medicare, you've probably begun receiving information about your coverage. That's because the annual enrollment period for Medicare runs from October 15 through December 7. During this period, you can make changes to your Medicare coverage that will be effective on January 1, 2014. If you're satisfied with your current coverage you don't need to make changes, but you should review your options before you decide to stay with your current plan.

Your Medicare plan sends you two important documents every year that you should review. The first, called the Evidence of Coverage, gives you information about what your plan covers, and its cost. The second, called the Annual Notice of Change, lists changes to your plan for the upcoming year (these will take effect in January). You can use these documents to evaluate your current plan and decide if you need different coverage. If you haven't already gotten one, you should soon receive a copy of Medicare & You 2013, the official government Medicare handbook. It contains detailed information about Medicare that should help you decide if your current plan is right for you.

As you review your coverage, here are a few points to consider:

- Will your current plan cover all the services you need and the health-care providers you need to see next year?
- Does your current plan cost more or less than other options? Consider premiums, deductibles, and other out-of-pocket costs you pay such as co-payments or coinsurance costs; are any of these costs changing?
- Do you need to join a Medicare drug plan? When comparing plans, consider the cost of drugs under each plan, and make sure the drugs you take will still be covered next year.
- Does your Medigap plan (if you have one) still meet your needs?

If you have questions about Medicare, you can call 1-800-MEDICARE (1-800-633-4227 or TTY 1-877-486-2048) or visit the Medicare website at www.medicare.gov.