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Tune Out the Noise

There's a reason that investors tend to only hear about "looming" market doom or "imminent" market growth. While many news outlets have incentive to draw viewer attention with wildly bullish or bearish predictions, these sensationalized views may be a distraction to a sound investment approach. When tempted to make a radical change to your investment portfolio based on these headlines, it is important to recall some basic fundamentals to keep your plan on track.

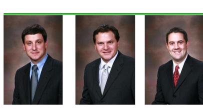
Drown out the noise. Market movements are notoriously difficult to predict. The media outlets that scream the loudest are not always the most accurate. The fallout from attempting to time the market in response to one of these predictions can be dangerous to your portfolio.

Look, but don't stare. While it's important for investors to know the performance of their accounts, short-term market fluctuations can be quite volatile. While the probability of realizing a loss within any given day is high, the likelihood of realizing a loss historically has decreased over longer holding periods. Periodic review of an investment portfolio is necessary, but investors shouldn't let short-term swings affect their view of the future.

Stay focused on the long term. Investors who have taken the time to determine a sound investment plan based on specific goals and risk tolerances are best advised to stick to that plan. While it may not always grab headlines, a sensible, tailored investment plan may be the best solution to meeting long-term goals.

Holding a portfolio of securities for the long term does not ensure a profitable outcome, and investing in securities always involves risk of loss.

Advisor Corner



David Albrecht, Chad Stevens, Wade Lawrence

(515)981-1400
www.citystatebank.com

Now that 2014 is well under way, we are seeing a bit different year than what 2013 offered us. A new Federal Reserve Chairman is now in place, and Janet Yellen looks to keep the same course on the tapering. We continue to monitor interest rate changes and the impact this is having on bond prices. Valuations are showing equities are still reasonably priced.

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Thank you for your continued business and the trust that you have placed with us. We look forward to continued success in 2014!

Mutual Fund Tax Bills Are Rising

Mutual fund investors' tax bills have been on the rise again recently. The average capital gains distribution (a payment to shareholders of profits realized on the sale of a fund’s securities) for U.S. equity funds based on data as of April 2014 is 19.3% of assets, compared with, for example, 6.9% back in 2007. These recent distributions are among the largest seen since the start of the financial crisis in 2008.

The reason for those payouts is of course a good thing. The payouts mean that funds have produced solid returns for a few years running. The distributions were small in 2008, 2009, and 2010 because capital gains were offset by realized losses during the financial crisis. However, most of those losses are long gone.

Mutual funds are required to distribute their capital gains once a year. All of the realized gains are tallied while the realized losses and loss carry forwards from the previous year are subtracted to arrive at the total sum to be paid out. The distributions are made in equal proportions to all shareholders regardless of when they bought the fund. Then all the fund holders who own the fund in a taxable account have to pay taxes on those distributions—even if they reinvest their distribution.

What does all of this mean? Well, mutual fund investors should consider strategies for dealing with future payments. Most funds may still be sitting on sizable gains, so it's quite likely that payouts will continue to grow as funds sell their winners. Thus, fund tax bills can be expected to grow. That's a bad thing, because you'll have more money at the end of the day if you can postpone paying capital gains as far into the future as possible. The reasons are twofold: First, the time value of money means that money in today's dollars is worth more than in the future because inflation will have eroded its value. In addition, if you hold on to the money, it can compound over time in your fund, thus earning you more money.

Here, then, are a few things you can do to limit your tax bill.

1) Max out on tax-sheltered accounts. Taxable distributions are not a problem for 401(k)s, 403(b)s, and IRAs, so invest as much as the law will allow before you put money in taxable accounts.

2) Consider tax-managed funds for your taxable accounts. Tax-managed funds do a great job of avoiding making distributions because they realize losses on some holdings when they have to realize gains on others. After taxes are figured in, these funds generally put up superior returns.

3) Consider exchange-traded funds (ETFs). They don't have all the strategies available as tax-managed funds, but they do have some unique features that help reduce their tax bills. Just make sure you've chosen one that is diversified, has low costs, and has low turnover.

4) Don't buy funds that have had huge returns over the past three years. Buy a fund with huge gains and you're going to get a huge tax bill regardless of whether you make any money yourself. So, tread carefully in hot areas. If you have your heart set on such a fund, at least put it in an IRA or 401(k).

Investors should read the prospectus and carefully consider a fund’s investment objectives, risks, fees, and expenses before investing. It is important to note that ETFs are not immune from capital gains distributions; ETFs may make capital gains distributions if changes in the underlying index occur. 401(k) and IRA plans are long-term retirement-savings vehicles. Withdrawal of pretax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Please consult with a legal, financial, or tax professional for advice specific to your situation.

Five Estate-Planning Tasks That You Shouldn't Put Off

Keeping tabs on the estate-planning rules during the past few years has been a little like watching Olympic-level table tennis: The action moves quickly, and it's difficult to keep up. However, no matter how laws and rules change, there are a few basic tasks that are actually pretty evergreen and that everyone should execute. Five such estate-planning to-dos are outlined below.

1) Update Beneficiary Designations. Even people who have never set foot in an attorney's office may have laid the groundwork for an estate plan if they filled out beneficiary designation forms for their financial accounts. Those designations, in fact, trump other estate-planning documents when it comes to distributing assets, so it's worthwhile to periodically review them to make sure they're up-to-date with your current situation—if you've gotten married or divorced, for example. (How would your spouse feel if you inadvertently left your 401(k) account to your brother?) People who have drafted estate-planning documents such as wills should ask their attorneys to help them review beneficiary designations to ensure that they sync up with other estate-planning documents.

2) Designate Legal Guardians. Parents of young children should designate legal guardians who will look after their children if the parents should die or otherwise be unable to care for their minor children. It is important to focus the discussion on actual child-rearing abilities and willingness to do the job. What is not helpful is to get hung up on hurting anyone's feelings or bypassing friends or family members who might expect to be guardians but aren't the best choice. Most importantly, a guardian should be willing and able (emotionally and financially) to take care of your children if the need arises, so an essential step is to discuss the responsibilities with the potential guardian beforehand.

3) Create a Living Will and Last Will and Testament. A living will tells your health-care providers and your loved ones how you would like to be cared for if you should become terminally ill and unable to express your wishes yourself. It is called a "medical directive" in some states. This document details your views toward life-support equipment. Not to be confused with a living will, a last will and testament details how you'd like your assets and possessions distributed after your death.

4) Draft Powers of Attorney. A basic estate plan should also address what would happen to your affairs if you are still living but incapacitated. A power of attorney is a document that specifies who will handle your affairs if you are unable to do so. You'll need to draft two separate documents: one that names your power of attorney for health-care decisions and another for financial matters (often called a durable power of attorney). The person you entrust with your power of attorney for health care will, ideally, live in close geographic proximity to you. The person you name on your durable power of attorney form should be detail-oriented and comfortable with financial matters.

5) Name an Executor. Your executor will gather all of your assets after you're gone and make sure they are distributed in accordance with your will. Ideally, your executor will be someone who's comfortable with numbers and good with details, and will also be able to find the time to work on your estate. It's common to name family members as executors, but in more complicated situations it might be preferable to use a professional, such as a bank trust officer, to serve as your executor. It's a good idea to tell your executor that you've named him or her, and also provide details on how to obtain access to important documents, such as your will and a master directory detailing all of your accounts.

Quick Facts: Retirement

1. According to Aon Hewitt's "The Real Deal" 2012 study, an average full-career contributing employee needs 11.0 times pay at age 65, after Social Security, to expect to have sufficient assets to last through retirement. For example, if your salary is $80,000, you will need to have accumulated $880,000 by the time you're 65 and ready to retire.

2. In reality, the same employee is expected to have only 8.8 times pay in resources at retirement, which translates into a 2.2 times pay shortfall. To reuse the example above, this means you'd be $176,000 short.

3. The 2013 Transamerica Retirement Survey found that the percentage of participants who have taken a loan from their 401(k) plan has increased from 16% in 2008/2009 to 21% in 2012, then slightly decreased to 17% in 2013.

4. Wells Fargo conducted a survey of 1,000 middle-class Americans. The study shows that across middle class members of all generations, only 24% are confident in the stock market as a place to invest for retirement. The apprehension about the market is stronger for those age 25 to 29, with 56% expressing fear of losing their nest egg. When asked if given $5,000 for retirement where they would invest, 58% of those age 25 to 29 said they would invest in a savings account/CD.

5. Only 18% of workers are very confident they will have enough money to live comfortably in retirement (according to the EBRI 2014 Retirement Confidence Survey).

Sources: Aon Hewitt's "The Real Deal: 2012 Retirement Income Adequacy at Large Companies." "14th Annual Transamerica Retirement Survey of American Workers," Transamerica Center for Retirement Studies, July 2013. Wells Fargo news release, "Middle Class Americans Face a Retirement Shutdown," October 2013.

David Albrecht, Chad Stevens, Wade Lawrence

City State Bank Trust & Investments
1104 Sunset Drive, Ste. B
Norwalk, Iowa 50211

www.citystatebank.com

Tel: (515)981-1400