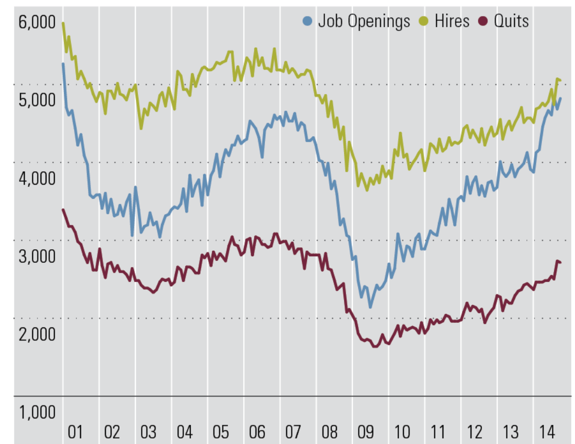
One of Yellen's Favorite Metrics 'Jolts' Ahead

The formerly unimportant job openings report has taken on a new significance since U.S. Federal Reserve Board Chair Janet Yellen has included this metric in a list of labor market reports that she is watching closely. And this relatively new report is now sending a message that we really haven't seen before. Job growth isn't much better than it has been in the past three or four years, while the number of openings per person employed is now at its best level since 2001 and way above year-ago levels.

The chart below illustrates how the growth in job openings is outpacing the growth in hires. This means that there are increasingly less workers matched with the jobs that are being posted, and it may soon force employers to increase wages in order to fulfill those unmatched job openings.

Job Openings, Quits, and Hires, Seasonally Adjusted, Thousands of Workers



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Source: Bureau of Labor Statistics. Data through November 2014.

Advisor Corner

David Albrecht, Chad Stevens, Wade Lawrence, Charlie Ochanpaugh

(515) 981-1400
www.citystatebank.com

Welcome to 2015! As we close the books on 2014, let's take a look back. Imagine if I'd told you one year ago that 2014 would include the following: soaring Treasury bond prices, a collapse in global commodity prices, a drop in oil prices to under $50 per barrel, and the largest Ebola outbreak in history. You may have questioned that equity markets would have had a positive return year.

It certainly paid to be invested in the stock market again in 2014, although certain sectors fared better than others. The leader was the large company arena in the S&P 500 (13%). International (6%), Russell 2000 (5%) and Emerging Markets (-4%) did not fare as well. Utilities proved to be the best-performing U.S. sector, and energy was the worst sector with the price of oil down over 50%.

NOTE: Due to the dates in which we receive final tax information from mutual funds, we have again this year filed an extension. We are expecting to have all tax information out by February 15.

Avoid These Mistakes With Your IRA, Part 1

Funding an IRA may seem like a simple financial task: Pick your provider, send in your money, and choose your investments. Done.

But a look at Internal Revenue Service Publication 590, which details the ins and outs of IRAs, suggests there's more to it. There are two key IRA types (Traditional or Roth), as well as two subtypes of Traditional IRAs (deductible and nondeductible), not to mention byzantine rules regarding rollovers, conversions, and recharacterizations. And what about when you begin taking IRA withdrawals in retirement? More kooky rules there, too.

There are a few obvious IRA mistakes, such as pulling money out of a Traditional IRA before age 59 1/2, but here are some IRA pitfalls that might be less familiar.

Mistake 1: Not taking full advantage of the tax benefits. One of the key benefits of any type of IRA, whether Roth or Traditional, is the ability to avoid taxes as the money grows. Investors who hold stocks and bonds in a taxable account are likely to receive taxable income and capital gains distributions from their holdings each year. Investors who hold the assets in an IRA, by contrast, have the potential to be taxed at a lower rate, or not at all, on those payouts, assuming they don't take the money out prior to age 59 1/2. That represents an opportunity to stash high-income-producing securities, such as dividend-paying stocks, for example, within the IRA wrapper, while saving more tax-efficient assets, such as broad market equity index funds, in taxable accounts.

Mistake 2: Being dogmatic about asset location. The key consideration here is when investors expect to need the money. For young accumulators, IRAs may be stock-heavy, and there may be no reason to add income producers into the mix. Meanwhile, for a 35-year-old holding bonds to fund a remodeling project, for example, it may make more sense to hold them in a taxable account, without any strictures to withdraw the money before retirement. The same reasoning applies to retirees who would like to pull some money for living expenses from their taxable accounts. It doesn't make sense to have all of the bonds residing in an IRA; bonds' relative liquidity might be helpful in taxable accounts, too. Finally, it's worth noting that it's often desirable to tap Roth assets toward the back end of retirement—if at all—because their tax-saving features are generally the greatest and should be stretched out for as long as possible.

Mistake 3: Not giving due care to IRA beneficiaries. The importance of beneficiary designations (they actually trump other bequests laid out in estate plans) is an under-discussed topic. As with any type of beneficiary designation, it's important to keep your IRA beneficiary designations up to date as your life situation changes—marriages, divorces, parents passing away, and so forth. Most people will name their spouses as their IRA beneficiaries; when the account owners die, their spouses can generally roll the assets into their own IRAs.

Mistake 4: Triggering a tax bill on a Roth IRA withdrawal. One of the key benefits of funding a Roth IRA is the ability to take tax- and penalty-free withdrawals in retirement. The Roth may also be a great vehicle for accumulators who worry about tying their assets up for a long time, as it's possible, under certain conditions, to withdraw contributions at any time and for any reason without triggering taxes or a penalty. Things get more complicated, however, when it comes to withdrawing investment earnings, or if your money got into the Roth because you converted it from a Traditional IRA or 401(k).

Mistake 5: Triggering a tax bill on a rollover. When it comes to the financial tasks that might crop up on your to-do list during your investment career, an IRA ranks as easy on the degree-of-difficulty scale. But it's still possible to goof up a rollover.

Avoid These Mistakes With Your IRA, Part 2

One of the key rules to bear in mind when rolling over money from a former employer's 401(k) into an IRA is the 60-day rule—that is, you have 60 days to complete the rollover. If you don't complete the rollover within that 60-day window and you're younger than 59 1/2, the amount will be treated as an early distribution and be subject to taxes and a 10% penalty. That's why it's a good idea to have your providers deal with one another on the rollover. That way, you never put your hands on the money, and the financial-services providers know the need to complete the rollover in a timely fashion.

Mistake 6: Letting your brokerage or fund company call the shots on your RMDs. Investors who are age 70 1/2 know that that's the year in which they must begin taking required minimum distributions from their Traditional IRAs and 401(k)s. Those RMDs are taxable. But RMD season also gives you the opportunity to make lemonade by being strategic about the investments from which you pull the distributions. Did your stock holdings shoot up in 2013? If so, it may be an ideal time to trim those holdings to restore your asset allocation back to your targets. As long as you take the right amount of RMDs from all accounts of a given type (you can't mix and match RMDs from your 401(k) and IRA, for example), you'll be on the up and up with the IRS. By contrast, if you leave it to your brokerage fund company to decide where to pull the money from, it may not be to your advantage. They may pull the money in accordance with their default rules, often proportionally from each holding.

Mistake 7: Not appealing a penalty on missed RMDs. Fail to take the RMD, and you'll be on the hook not just for the taxes, but also a 50% penalty (excise tax) on the amount that you should have taken and did not. That said, there may be legitimate reasons that you (or a loved one) missed the RMD. Perhaps you were ill, for example, or perhaps your parent is in the early stages of dementia and you haven't yet implemented a system to help with financial matters. The first step is to take the required distribution as soon as possible. Then fill out IRS form 5329, requesting a waiver of the 50% excise tax on missed distributions and providing the reason. Assuming the IRS finds that the missed RMD owes "to reasonable error and you are taking reasonable steps to remedy the shortfall," you should be able to get that penalty waived.

Mistake 8: Spending RMDs you don't need. In addition to the taxes due on RMDs, many retirees grouse about the distributions because they're taking them over their desired distribution rates. Shortly after they commence, RMDs quickly escalate well above the distribution rates that much research deems prudent and up into the range of 6% or 7%. Of course, as retirees age, they can arguably take more from their portfolios than they could earlier in their retirement years because their life spans are shorter. Additionally, your IRA may not be your only retirement resource; you can forgo distributions from other account types so that your RMDs don't take you over your planned spending rate. But if the RMD requirements are going to take you over your planned distribution rate, you can reinvest the money back into your retirement accounts—either a taxable account or a Roth IRA.

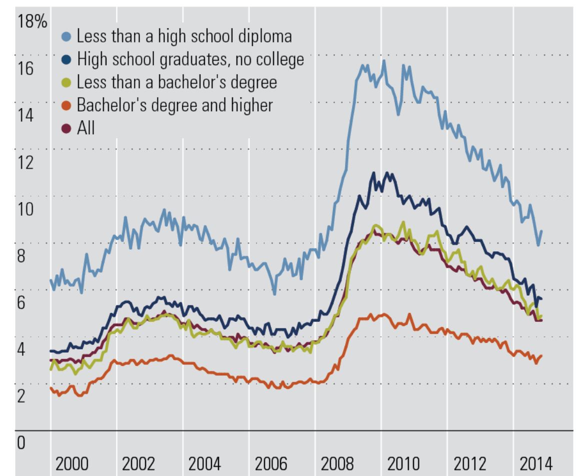
401(k) plans are long-term retirement savings vehicles. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. This is for informational purposes only and should not be considered tax or financial planning advice. Please consult a tax and/or financial professional for advice specific to your individual circumstances.

Unemployment by Education Level

There is a clear connection between educational attainment and unemployment rate. As expected, the people with the highest rate of unemployment are the people without even a high school degree. The unemployment rate for this group is almost triple that of college graduates. In general, the more education you have, the better off you are.

The percentage of the population that has a college degree has been relatively stable in the 30% range. And there is a large part of the population that could probably use yet more college education. Putting these two together, the conclusion is evident: It pays to go to college, and it would also be good if the percentage of the population who are college graduates could increase.

Unemployment Rate, 25 Years and Older



Source: Bureau of Labor Statistics, Morningstar calculations.
Data as of November 2014.

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David Albrecht, Chad Stevens, Wade Lawrence, Charlie Ochanpaugh

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

www.citystatebank.com

Tel: (515) 981-1400

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