TAMMA CAPITAL

Personalized Investing for Your Future

Investment Perspectives
2014 Q3

Think Like a Freak

This month I had the privilege to host our second business book club of the year at The Community House in Birmingham, MI. For more information regarding this essential non-profit treasure in our MI community I encourage you to explore their website for all of the programs that they put together to help enrich our communities.

Our book review for this session was "Think Like a Freak" by Steven D. Levitt and Stephen J. Dubner. These two economist/journalists have gained noteworthy fame with their previous two books "Freakconomics" and "Super Freakconomics." "Think Like a Freak" goes beyond these first two books by providing new methods on how to help solve problems vs. simply looking at problems differently. Below are a few of the high level takeaways from the book:

- **Learn to say "I don't know"** - until you can admit what you don't yet know, it's difficult to learn what you need to
- **Define your problem** – if you ask the wrong question, you are almost guaranteed to get the wrong answer
- **Teach your garden to weed itself** - the art of beating your opponent by anticipating their next move (Game Theory)
- **Take a master class in incentives** - for better or worse, incentives rule our world
- **Persuade people who don't want to be persuaded** -being right is rarely enough to carry the day
- **Appreciate the upside of quitting** - you can't solve tomorrow's problem if you aren't willing to abandon today's dud

So how does this book relate to what we do at TAMMA when it comes to wealth planning and asset management?

- **Learn to say "I don't know"** – this is the point where we meet new clients for the first time when they realize they need professional planning and asset management expertise. It takes a certain degree of courage and trust to take this step but it can help put you on the path to achieving your goals
- **Define your problem** – this goes beyond knowing what you are trying to accomplish such as saving for retirement, college, or to start a new business. It involves realizing that you have limited resources competing for all of your objectives and how you go about balancing priorities
- **Teach your garden to weed itself** – our behaviors can work against us when our short-term focus derails us from our long-term goals. When stock markets correct look to them as an

opportunity vs. a time to sell and get out. We help people identify what triggers this knee-jerk behavior in order to change their habits
- **Take a master class in incentives** – what would it take to forego spending today if it meant achieving our goals tomorrow? We encourage people to visually post what success would look like in a place where they would see it every day, for example a picture of the place you would like to retire or a new house
- **Persuade people who don't want to be persuaded** –we tell real life stories about the people who have gone from $100k in debt to being debt free, or the couple that have saved enough to retire 5 years ahead of plan
- **Appreciate the upside of quitting** – even the best laid plans can go wrong, we have developed rules and processes to cut our loses in certain positions that do not work out according to our analysis in order to preserve our clients' capital.

Insider Trading

45...percentage of US households headed by individuals of "working age" who have not set aside any funds for their future retirement (Money)
51...percentage of Americans who have less than 3 months of expenses saved in case of a financial emergency (Money)
10.9...percentage of student loan debt that is at least 3 months delinquent or is in default as of 6/30/14 (Federal Reserve Bank of New York)

The heart of wealth planning and asset management is helping people to accomplish their financial and lifestyle goals. One of the ways that we achieve this at TAMMA is by continuing to educate not only oursleves, but others on how to make better financial and life decisions. We agree with Albert Einstein when he said, "One cannot solve problems with the same level of knowledge that created them."

State of the Portfolio

Last quarter we provided you with some specifics on the key principles that TAMMA uses to build the core foundation of our individual stock selection strategy. Recall that we look for companies that;

- Use debt sparingly
- Generate relatively strong cash flow
- Positive trend in change of earnings estimates

While these principles may appear basic in nature, it is the discipline that TAMMA maintains to focus and follow these guidelines that makes us unique in our investment management approach.

Although we strive to maintain a balanced approach in our research between small/mid cap vs. large cap companies, our work continues to drive us towards the small/mid cap classes. Currently we believe that most large cap companies are fairly valued so rather than chasing performance we will remain patient investors and wait for a modest pullback in prices. With that said, most of our research has been focused on small/mid cap companies with limited analyst coverage to exploit a few "diamonds in the rough."

Large Cap - market valuation (or cap) greater than $10 billion, focus is on companies that are less sensitive to interest rates, carry below average debt, and provide for growing dividend payouts

- Google, GOOGL while it does not provide a dividend it does provide for some exciting growth opportunities which you would normally find in a small/mid cap company. Innovations such as Google Glass and self driving automobiles could find their way into everyday living which could provide the next wave of growth for Google

Small/Medium Cap – market valuation (or cap) of less than $10 billion, focus is on companies that grow based upon product or service differentiation, up and coming technologies that could replace current established products, services, and/or processes

- Annie's Inc, BNNY is natural and organic food company that we purchased at the beginning of Q3 this year and was subsequently purchased by General Mills in September. We liked Annie's given its consistent revenue growth, solid profit margin and lack of debt. General Mills must have shared a piece of our thesis as well
- Omega Flex Inc, OFLX is a manufacturer of flexible metal hose, which is used in a variety of applications to carry gases and liquids within their particular applications. OFLX registered an almost perfect score within our proprietary stock selection model which is highly influenced by the above mentioned investing principles. Omega participates in so many industries which provide balance growth as it is not dependent upon any one industry or customer for its growth.

Social Currency

We would like to express our sincere gratitude and acknowledge the following individuals who have recommended TAMMA to our newest clients. Your continued trust and confidence in TAMMA is greatly appreciated.

- **Michelle Donnelly**

We would also like to extend a warm welcome to our newest professional partners

- **Mike Witzke,** attorney Witzke Berry Carter & Wander

Personalized Investing; Traditional vs. Roth IRA, what really matters

The topic of which IRA option to choose always seems to be a hot topic when it comes to retirement planning. However before we can begin to determine what IRA option may be best for you; we should first clearly identify the differences between the two.

Traditional IRA

- Contributions are pre-tax
  - You may qualify for a deduction although it may be limited if you (or your spouse, if you are married) are covered by a retirement plan and your income exceeds certain levels
- Assets grow tax-deferred
- Withdrawals are taxed
- You must start taking withdrawals by age 70½ (the exact amount depends on the year and your age). If you don't make withdrawals come age 70½, you could get a 50% penalty on the amount you should have withdrawn

Roth IRA

- Contributions are after-tax
    - The limits of a Roth IRA are that you must have a modified AGI limit of less than \$114,000 as an individual in 2014; or less than \$181,000 if married, to either contribute or convert an existing IRA to a Roth IRA. Phase out for singles is between \$114k and \$129k, for couples \$181k and \$191k
- Assets grow tax-free
- Withdrawals are tax-free
- There are no required withdrawals

Contribution Limits and Penalties

- Maximum individual contribution limit for 2014 is \$5,500; \$6,500 catch up limit if age 50+
- Penalty free withdrawals can begin at age 59½. Withdrawals before 59½ will most likely incur a 10% penalty

While there are several factors that could help you decide what IRA is best for you such as the impact of required distributions, state estate taxes, contribution limits, and the embedded tax liability; there is one factor alone that should drive your decision which is Current vs. Future tax rates.

- **Current vs. Future tax rates**, if you believe that your tax rate will be the lowest in your retirement years which is typically the case because your income is lower, the Traditional becomes the best choice for you. If for some reason the opposite is true then go with a Roth. Simply put the greatest wealth is created by paying taxes when the tax rate is the lowest.

The key to remember with any investment is to consider what your total return would be after taxes. And being aware of what your current and future tax base is a key input into that decision making process. The Roth with all of its advantages could be a wealth destroyer by paying taxes at a higher rate.

For questions about IRAs or any retirement vehicle, do not hesitate to reach out to us to find out what option may be best for your own personal situation. Remember at TAMMA, we help to personalize investing for your future.

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