



# INSIGHTS

May 2011

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## CELEBRATING 20 YEARS

In April, Miller/Russell reached its 20th birthday. For us, this is quite a milestone. Starting with no employees or clients in 1991, we now serve more than 400 clients, representing over \$1.1 billion in investment assets and employ 18 people. Miller/Russell was founded on the notion that it could deliver investment advice without the conflicts prevalent in our industry, and that we could conduct ourselves with honesty, integrity, and a commitment to a high level of client service. I believe we have always remained true to these basic tenets.



Dennis Miller, President

Much has changed since our beginning and, from an investment standpoint, we have transitioned into a different company. Initially, we structured a partnership with the Frank Russell Company and offered their multi-asset, multi-manager funds to our clients. It was here that we learned the techniques of asset allocation and portfolio construction. In the late 90's we moved away from the Frank Russell Company, seeking total independence, more tax-efficient returns, lower fund operating expenses, and an open architecture approach to selecting investments.

The decade from 2000-2010 was very tumultuous, highlighted with two "bubbles bursting". As uncomfortable as this was, it offered us the opportunity to further refine our investment approach by creating a separate asset category titled "multi-strategy" to manage both specific and broad portfolio risks, and provide further diversification in client portfolios. Today, I believe the structure of our portfolios and the investments utilized for implementation are very competitive within the industry. Beginning in 2010, we expanded more comprehensively into "wealth management". This means that in addition to our historical focus on investments, we are focusing on delivering value in the areas of estate planning, insurance, taxes and charitable giving.

Now, to the real point. None of what has happened here would be possible without you. We have been blessed with an unusually high quality group of clients and professional partners, and together we have built something that serves all of our needs. This symbiotic relationship is important to all of our futures and every day going forward we will work hard to improve the outcomes we all seek. We are committed to learn and adapt as global markets and economies evolve.

The first 20 years was wonderful; I hope the next 20 years are as good. Please accept, on behalf of the entire Miller/Russell family, our heartfelt appreciation for your patronage.

Sincerely,

Dennis Miller  
President

## CLIENT SPOTLIGHT

### Success to Significance

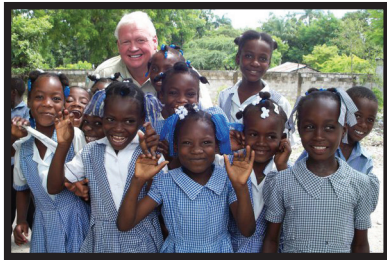
by Scott Howard



In January of 2010, following the earthquake in Haiti, I made a donation to a relief organization called Convoy of Hope. This small monetary

donation changed my life and my definition of success. In the past, I felt that the checks I wrote were my contribution. This time, however, I was fortunate enough to receive a telephone call from the Convoy of Hope thanking me for the donation and inviting me to travel to Haiti. My wife Janet, who has been on several relief missions, had the ticket booked before I had a chance to think about it.

I traveled to Haiti in June, 2010. I saw how, in an instant, an earthquake changes lives forever. Without warning, people are homeless, loved ones are lost, and many are left without food and basic necessities. In spite of the strife and terrible tragedies, life springs from the rubble and the resiliency of the human spirit, particularly evident through children, is truly amazing and uplifting. The evolution



from signing checks to holding the hands of children in their time of need moved me to accept a second invitation to travel with the Convoy of Hope to Kenya in March.

In Kenya, we provided shoes and goodwill to children in orphanages, went on a mini-safari, and participated in a conference for business people. I was able to experience firsthand the efficiency and effectiveness of Convoy of Hope. Through partnerships with local organizations, this organization is able to distribute aid quickly and get it into the hands of those in need. As a business man, I am impressed with their ability to turn one dollar of contribution into seven dollars of food for those in need.

Why so many trips? My success is no longer measured in dollars, but rather in how I can help others, particularly underprivileged children.

All humans should be given the opportunity to thrive, not just survive. I am now planning a return trip to Haiti in May. Does anyone want to join me?



*Convoy of Hope is a nonprofit organization that has served more than 42 million people throughout the world through international children's feeding initiatives, community outreaches, disaster response, and partner resourcing. For more information, please visit their website at [www.convoyofhope.org](http://www.convoyofhope.org).*

*Scott Howard is a principal of Commercial Roofers, Inc, a successful Las Vegas Roofing Contractor who has won a number of prestigious awards including Commercial Contractor of the Year, 2009, Best Places to Work, 2009, and Gold Circle Award, 2008.*

## AROUND THE FIRM

### Miller/Russell welcomes Nathan Erickson

Nathan Erickson joined the Miller/Russell team in April as a Portfolio Manager. Nathan holds Masters degrees in Finance, Accounting/Financial Management, and Business Administration. He also holds the Chartered Financial Analyst® designation.

Nathan grew up in Alberta, Canada, just 2 hours north of the Montana border. An avid sports fan, he played baseball, basketball, and football in high school, and then decided it was time to head south. He earned his undergraduate degree at Kenyon College in Ohio, and subsequently spent six years in various parts of Washington state. After a year in Sydney, Australia completing a Masters in Finance degree, he decided he'd rather return to Sydney-like weather than back to Seattle, so he settled in Phoenix where his parents snow bird half the year from Canada. The ability to watch Steve Nash, a Canadian hero, on a regular basis was appealing as well. Nathan has two sons, Elijah (8) and Isaac (5), who are his pride and joy. He spends his free time enjoying life with them, whether that's playing sports, going to Suns games, exploring Arizona, or just hanging out. He feels blessed to be a part of a great company that reflects his values and beliefs.



## FEATURED ARTICLE

### *Be It Resolved*

by Brad Steiman

So, for those who find making such promises useful, here are ten investment-related resolutions that will hopefully result in better long-term wealth:

1. I will not confuse entertainment with advice. I will acknowledge that the financial media is in the entertainment business and their message can compromise my long-term focus and discipline, leading me to make poor investment decisions. If necessary I will turn off CNBC and turn on ESPN.
2. I will stop searching for tomorrow's star money manager, as there are no gurus. Capitalism will be my guru because with capitalism there is a positive expected return on capital, and it is there for the taking. And for me to succeed, someone else doesn't have to fail.
3. I will not invest based on a forecast—whether it is mine or anyone else's. I will recognize that the urge to form an opinion will never go away, but I won't act on it because no one can repeatedly predict the future. It is, by definition, uncertain.
4. I will keep a long-term perspective and appropriately consider my investment horizon (i.e., how long my portfolio is to be invested) when determining my performance horizon (i.e., the time frame I use to evaluate results).
5. I will continue to invest new capital and work my plan because it is time in the market—and not timing the market—that matters.
6. I will adhere to my plan and continue to rebalance (i.e., systematically buying more of what hasn't done well recently) rather than “unbalance” (i.e., buying more of what's hot).
7. I will not focus my portfolio in a few securities, or even a few asset classes, as diversification remains the closest thing to a free lunch.
8. I will ensure my portfolio is appropriate for my goals and objectives while only taking risks worth taking.
9. I will manage my emotions by learning about and acknowledging the biases and cognitive errors that influence my behavior.
10. I will keep my cost of investing reasonable.

To read the entire article by Brad Steiman, please visit our website at [www.miller-russell.com/news.php](http://www.miller-russell.com/news.php).

*Brad Steiman is the Director and Head of Canadian Financial Advisor Services and Vice President at Northern Exposure.*

## TAX PLANNING

### *IRS Lost that “Trusting Feeling”*

by Mary Ann Hennelly-Favata, CFP®

Miller/Russell & Associates

Gone are the days when the IRS trusted taxpayers to report the tax basis of assets that they sold. Due to the Emergency Economic Stabilization Act of 2008, brokers are now required to report to the IRS on Form 1099 the cost basis information for assets disposed of during the year. This cost basis reporting requirement is being phased in over three years, beginning in 2011 for equities, 2012 for mutual funds, and 2013 for fixed income and other securities.

Cost basis must now be tracked on all account transfers, journals, gifts of securities, and qualifying estate events by brokers. Executors will need to attest to the modified “date of death” valuations for qualifying assets. Historically, corporate accounts have not been subject to 1099 reporting requirements. This is changing for S-Corporations. All corporate accounts must now verify their tax status to determine if they are taxed as an S-Corporation, where income/losses flow through to the shareholders. In 2012, brokers will begin generating 1099s (and reporting to the IRS) for these flow-through entities.

Financial institutions can only report on securities for which they have cost basis information. Securities purchased prior to the implementation of the new law will be accounted for as “uncovered securities” with respect to IRS tax reporting. The law requires that a default tax methodology be applied to all sales executed in 2011 and later.

With the implementation of these requirements, investors may experience unintended consequences as these rules are gradually phased in. We urge you to review your accounts and verify that the default tax methodology currently in effect is what you intend. If you are not sure what method you should be using, discuss this with your tax advisor. While you can modify the tax methodology prior to or at the time of a trade, once a trade settles the broker cannot change the cost basis for IRS reporting purposes.

We also advise you to consider specifying tax lots whenever executing stock sales. If you sell a stock that was purchased in different tax lots and do not communicate to the broker the specific lots that you want to sell, your broker may report a gain or loss on the sale different than what you intended. If your tax reporting does not match your broker's reporting, it could signal a red flag to the IRS.

Fighting the IRS is typically a battle not worth waging. It is in your best interest to update the cost basis information you have on file with your custodian. At the very least, make sure you specify tax lots when you are executing sell trades. Because once a trade settles, it is your word against the IRS...

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# FIRST QUARTER MARKET REVIEW

## The climb continues...



During 2010, the global markets faced a heavy dose of challenging headlines, and the news didn't get much better with the New Year. Yet the equity markets continued to move onward and upward in the quarter seemingly unaffected by the unfolding events. So far in 2011, the world has faced a fiery contagion of revolution in the Middle East and North Africa that has sent dictators scurrying; a devastating earthquake and tragic tsunami in Japan resulting in a nuclear meltdown; continued financial problems threatening to dismember the European Union; rapidly increasing oil and food prices; and congressional budgeting challenges that threaten to put Uncle Sam on furlough.

Through it all the equity markets continued upward, with the Dow having its second largest 1st quarter point gain in recent times, rising 742 points or 6.4%. (The largest 1st quarter gain was in 1998, when the Dow surged more than 891 points.) The broader indexes also achieved significant gains, with the S&P 500 rising 5.92% to a level nearly double its March 9, 2009 lows (up 104.5% to be exact). The Russell 2000 Index continued with the "smaller is better" theme in the quarter, gaining almost 8%. Even foreign stocks shrugged off their fiscal woes and natural disasters, with the MSCI EAFE Index gaining 3.45%

In the bond market, interest rates began an upward trend, reflecting bondholder's concerns over renewed signs of inflation and the long-term impact of the increasing US deficit. But that trend came to a halt when the Japan earthquake struck, once again reminding investors why bonds play such an integral role in a diversified portfolio. Treasuries strengthened, and the Barclays Capital Aggregate Bond Index gained 0.42% for the quarter.

As we move into the spring and the warm summer ahead, all eyes will be on the scheduled completion of the Fed's 2nd round of quantitative easing at the end of June, and what effect, if any, the cessation of its bond purchases will have on interest rates and the hand off of the economy back to the private sector. Ultimately, we do not know how successful this transition will be; therefore, investors would be wise to stay disciplined and maintain a diversified strategy closely aligned with their long-term investment goals.

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### NOTICE

Please note that the phone numbers for our San Diego and Las Vegas offices have changed:

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*Disclosure: Our goal is to share information with our readers that may help them better manage their personal financial situation. However, the information provided should not be construed as tax or legal advice.*