



## Lindisfarne Investments, LLC

An island of safety in a sea of risk

# Market Update

## August 29, 2014

### The Market and the World

As we mentioned in our last market report, the market seems to bounce off of “round numbers” such as 1,000, 15,000, 12,500, etc. In the last report we saw that most major averages had retreated from their respective “round numbers”. Since then, several of the averages have moved higher but have only returned to their previous highs.

A quick look at the following charts tells the story of a market with a split personality. While a few of the major indices are in an uptrend, many are at important resistance levels, bringing their previous short term uptrends into doubt. Small companies are touted to be the main engine for economic growth and job creation in the U.S. The action in the Russell 2000 small cap index and the behavior of Hi-Yield bonds (a main source of financing for small company growth) are bellwethers for the underlying strength in the economy. A quick glance at their charts shows that they are not exhibiting clear signs of the strength that fills news reports on a daily basis.

First, the Dow is barely above the 17,000 level. It needs to move decisively higher to re-establish its intermediate term uptrend.

### Dow Jones



The S&P 500 is still in its intermediate term uptrend, but is only back to the 2,000 level.

## The S&P 500



The Nasdaq 100 technology oriented index, though, remains firmly in its uptrend.

## Nasdaq 100



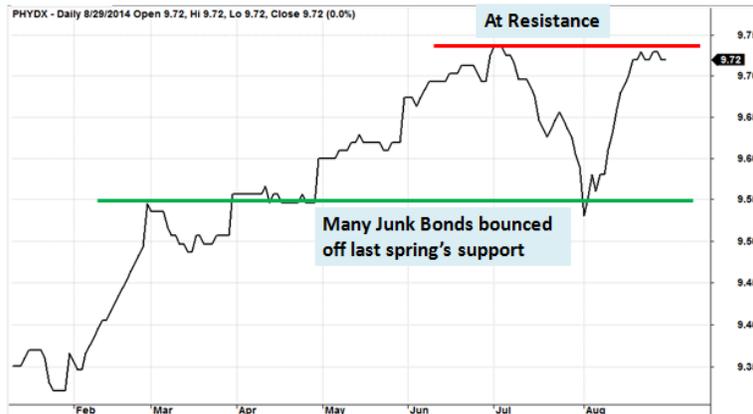
Although small caps have move up since the end of July, they remain undecided as they are still in their trading range roughly between 1,000 and 1,200.

## Russell Small Caps



Finally, many Hi-Yield bonds have followed the S&P 500, bouncing off of the highs of last spring only to return to the highs of early July.

## Hi-Yield Bonds



Remember, the fundamental tenet of technical analysis says that no matter what we hear or read or want to believe, the truth lies in the charts. To me the charts say you must stay actively engaged in managing your investments, such as we do at Lindisfarne Investments. Selection is more important than ever; this is not a time to throw darts at the ticker section of the Wall Street Journal to make you investment selections. First and foremost, risk management is king.

## **401(k) Plans That Were Left Behind**

It has been established that over 90% of 401(k) participants have never changed the investment makeup of their plan from those that they picked the day they signed up for the plan. So, it is no surprise that when they change jobs, their old 401(k) plan at their previous employer falls even further out of their conscious consideration and management.

If you have a legacy 401(k) plan from a previous employer, here is a list of steps to take back control of your money.

### **How big is the account?**

If the total account value is less than \$5,000, most plans will simply send you a check. If this is your case, make sure you have reinvested the money into an IRA within 60 days or you will be charged a 10% penalty by the IRS who will treat your payout as a withdrawal.

If your account is greater than \$5,000, you typically have a choice. You can leave the money in the old 401(k). But if you haven't been managing it there, I believe you are better to roll the money into an IRA or your current 401(k) plan if your new plan allows it. This is especially true if you have more than one old 401(k).

### **Should I stay or should I go**

There are several factors here. Some states give extra legal protection to 401(k) assets in case of a lawsuit. Another factor concerns the investment choices that you have in the old plan. I have seen plans with 26 choices where 22 or the choices seemed to be an S&P 500 clone, within one or two percent. So, you really only have 5 choices in this particular case.

An IRA typically gives you choices among thousands of mutual funds.

### **If I rollover to an IRA, where should I go**

IRAs can be established at major brokerage houses, banks, trust companies and at several other choices. The main things to check here is the reputation of the custodian, the universe that is available to you for investing and the fees that you would incur making a trade.

### **Should it be a rollover IRA or a Roth IRA**

Sometimes it makes sense, at rollover time, to take the extra step and roll the money into a Roth IRA. There are tax advantages in doing this, but you will have an upfront tax bill in doing so. Here, it is best to also consult with a CPA or your tax advisor before converting to a Roth.

## **Make the move**

The paperwork is typically very simple. You need only open an account at your new custodian and fill out a Transfer of Assets form. The new custodian will handle the transfer “behind the curtain”. I always prefer doing it this way since it keeps you out of the possibility of that 10% withdrawal penalty from the IRS.

Some 401(k) plans require extra paperwork to move the funds. If so, it takes another form from them and a little more time to complete the transaction.

If you going to roll the money into your current 401(k) plan, consult your benefits person to see what you need to do for their specific plan.

## **How will I manage this account?**

If this has been a “dormant” account where you haven’t been managing it, you have to ask yourself if you will manage it once you have moved it. Be honest with yourself and if the answer is “no” or “maybe”, then perhaps you should consider having an investment advisor manage it for you.

Lindisfarne Investments has helped many people through the process of a 401(k) conversion. Full service is so much more than managing your portfolio investments. Pick the right advisor that you feel comfortable with to help you with the transfer and with any other situation that might arise in your life.

Please feel free to pass this update on to anyone that you think might be interested in it. If they wish to be on the mailing list or would like more information about the services of Lindisfarne Investments, we can be contacted by phone at (440) 623-0775 or by email at [bill@lindisfarneinvestments.com](mailto:bill@lindisfarneinvestments.com) .

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