

## Southern Capital Services, Inc.

### “You’re Hedging My Portfolio?”

by Wendy Nelson Bailey, CFP®

We all grew up with hedges. Green bushes or trees planted closely together that kept us in our yard and our neighbors in their yards. They also were useful for keeping the prying eyes of the nosy neighbor at bay. We have to keep them trimmed or they become wild and filled with all kinds of weeds and then become home to all kinds of outdoor wild life. As children, we could find holes in the hedges that were used for forts or escape routes to and from our favorite play-mates houses.

As adults we still have to deal with hedges at our homes and, now, with our portfolios due to the recent downturn of the market and the ensuing volatility. The hedges of our neighborhoods and the hedges of our portfolios have similar purposes. Portfolio hedges also can provide a barrier or protection for our portfolios.

Since the first of the year, the markets have given us all a wild ride as they have responded to plunging oil prices and China’s devaluation of its currency.

Terry wrote about the market conditions in the *Market Alert* that you should have received at the end of January. Since that time, we have continued to experience declines in most sectors of the market both domestically and abroad. As your

money manager, that left us walking the fine line of taking some of the money or “risk” off of the table by first moving into cash and now into some investments that will provide a “hedge” to the market volatility that we are experiencing.

Currently, we have moved about 50% of your portfolio out of the market. That means half of your portfolio is still in a “long” position, if markets move up this portion will capture the up. The remaining 50% of the portfolio is maintaining your “hedge” from further downturns in the market. About 30% of that “hedge” is now invested

in four different funds that we believe will help us protect your portfolio against further decline. All four of these funds have had positive returns year to date.

The problem with hedging is knowing when to “trim” the positions.

Hedges can protect from losses, but they can also limit potential profits. Right now, we feel that if the S&P 500 breaks through 1950 again on the upside, this may signal that the correction is over; then we can begin to become less defensive. Conversely, if the market breaks through 1800 on the downside, more hedging may be required.

This is a complex concept. If you would like to discuss our approach in more detail, please give us a call. (251) 626-1140





## Timely Tax Information

by Eric Nager, CRPS®

### Realized Gain/Loss Report

For those with taxable, or non-tax qualified accounts, you will find enclosed with this newsletter a realized capital gain and loss report as well as a fee schedule for tax year 2015. The gain and loss report will tie to the 1099 you received earlier from TD Ameritrade, and those two documents will be necessary for tax preparation. If you need any other tax documentation from us, please give us a call.

As time moves on, our gain and loss report will become unnecessary, and as it is, it is only necessary for a couple of holdings. This is because TD Ameritrade, our custodian of client assets, was required to start capturing cost basis for all securities in 2011. Anyone who has opened an account with us since that year does not need our gain and loss report since everything will

be included on the 1099 from TD Ameritrade.

### Tax-Deductible Contributions for 2015

As for tax deductible contribution deadlines, traditional and Roth IRA contributions must reach TD Ameritrade by April 15 to count for tax year 2015, whether or not you file an extension on your taxes. The contribution limits are:

- \$5,500 for those under the age of 50
- \$6,500 for those age 50 and over.

For IRS purposes, anyone turning 50 in 2015 is eligible for the extra \$1,000 catch up provision.

Those with SEP IRAs have a possible later deadline to contribute. Those contributions must reach TD Ameritrade by the date of your tax filing, to in-

clude extensions. The reason for this later deadline is that one's SEP contributions are directly tied to a business, and it is often necessary to know the complete tax picture before an exact contribution is made.

All 401(k) plan contributions are deductible only in the calendar year in which they are made.

**NOTE:** If you are a participant in a plan not managed by Southern Capital Services, we will be happy to look over your choices and allocations and make recommendations if you would like.

If you know a business owner who offers or is thinking of offering a retirement plan to his or her employees, we would welcome the opportunity for a discussion about the various types of plans available and the benefits of each.

**“Good fortune is what happens when opportunity meets planning.”**

*-Thomas Edison-*

**“Practicing the Golden Rule is not a sacrifice, it is an investment.”**

*-Anonymous-*