WEEKLY MARKET COMMENTARY

For the Week of Dec. 22, 2014

THE MARKETS

U.S. stocks rose on Friday, rebounding from last week's losses and pushing the S&P 500 to post its best week in nearly two months. Energy shares led the rally even as oil prices continue to fall. For the week, the Dow rose 3.04 percent to close at 17,804.80. The S&P gained 3.44 percent to finish at 2,002.33 and the NASDAQ climbed 2.40 percent to end the week at 4,653.60.

Returns Through 12/19/14	1 Week	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	3.04	9.93	12.63	17.73	14.42
NASDAQ Composite (PR)	2.40	14.10	17.43	23.61	16.59
S&P 500 (TR)	3.44	14.28	16.79	22.37	15.85
Barclays US Agg Bond (TR)	-0.27	5.77	5.65	2.59	4.21
MSCI EAFE (TR)	0.85	-4.55	-1.41	12.60	6.03

Source: Morningstar.com. *Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The Dow Jones Industrials, MSCI EAFE, Barclays US Agg Bond and S&P, excluding "1 Week" returns, are based on total return, which is a reflection of return to an investor by reinvesting dividends after the deduction of withholding tax. The NASDAQ is based on price return, which is the capital appreciation of the portfolio, excluding income generated by the assets in the portfolio in the form of interest and dividends. (TR) indicates total return. (PR) indicates price return. MSCI EAFE returns stated in U.S. dollars.

Top Rate — The top 2015 individual income tax bracket (39.6 percent) begins at $464,850 for joint returns. The top 2005 individual income tax bracket (35.0 percent) began at $326,450 for joint returns (source: Internal Revenue Service, BTN Research).

Estate and Gift Taxes — The federal estate tax exemption will increase from $5.34 million (per decedent) in 2014 to $5.43 million as of Jan. 1, 2015. For 2015, individuals can make an unlimited number of tax-free gifts of up to $14,000 per recipient, unchanged from 2014's level (source: Internal Revenue Service, BTN Research).

Taxes — The deduction for home mortgage interest on owner-occupied residences will reduce the payment of individual income taxes by an estimated $72 billion in tax year 2014. The deduction for property taxes on real property will reduce income taxes by an estimated $29 billion in 2014 (source: Joint Committee on Taxation, BTN Research).

WEEKLY FOCUS – That Grinchy Alternative Minimum Tax

With only a little more than one week left in the year, the push is on to maximize income tax deductions and credits. Watch out – those carefully executed tax strategies can trigger the Alternative Minimum Tax (AMT), which can take away many of the goodies you've accumulated in your tax stocking.

For years, instead of a tax net for the wealthy, the AMT was considered the "stealth tax," torpedoing upper-middle class taxpayers who don't see it coming until they hit line 44 of their 1040. The AMT was subject to multiple last-minute patches for years until finally, the American Taxpayer Relief Act of 2012 (ATRA) set the AMT to be permanently adjusted for inflation. For 2014, the AMT exemptions are $52,800 for singles, $82,100 for married couples filing jointly or qualifying widow(er)s, and $41,050 for married filing separately.

The problem with the AMT lies not in its tax rate – 26 percent or 28 percent compared to the 39.6 percent top bracket of the regular tax system – but in the deductions it disallows. You can still take mortgage interest and charitable donations, but the AMT excludes state and local income taxes and property taxes, unreimbursed business expenses, child tax credits, tax preparation fees, legal fees and home-equity loan interest.

Without those exemptions, you end up with higher taxable income. Simply living in a state with high property taxes or having a large family can trigger the AMT, as can a mortgage deduction. The usual tax strategy of delaying income and maximizing deductions also may push you into the AMT zone, as can private activity bonds, municipal bonds for public projects like airports and stadiums, which lose their tax-free status in AMT land.

Exercising incentive stock options may be the biggest, most unexpected whammy. Under the AMT, the difference between the exercise price and the market price counts as income. The number of options you exercise and the timing can significantly impact the amount of taxes you'll owe on the gain.

Planning to avoid or minimize the AMT should look beyond the present tax year to ensure that minimizing AMT exposure in the current year doesn't maximize it the next. We can work with you and your tax advisor to help you keep the Grinch from stealing your year-end tax gifts!

WEALTH HAPPENS. **This commentary brought to you by:**

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