MITCHELL MCLEOD PUGH & WILLIAMS
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Roth IRA Versus Defined Contribution Plan

Contemplating whether to contribute to a Roth IRA or a defined contribution (DC) plan (such as a 401k)? Words of advice: Follow the money! If your company offers you a match for your DC plan contribution, you should keep investing in the account up to the maximum percentage that it will match. This is free money, and you won't find a better deal any place else.

After you've maxed out the match, it's probably wise to invest any remaining cash in a Roth IRA. You can put in as much as $5,500 in 2013 ($6,500 if you are 50 years or older), as long as your income doesn't top certain levels. You won't get any tax deductions with the Roth, but you won't have to pay any taxes on it for the rest of your life, which can turn out to be an advantage over a DC plan. Another plus for the Roth is that you can keep your money there forever, as opposed to a plan like a 401(k), from which you have to start taking withdrawals by age 70 1/2.

With a Roth IRA, one big advantage is the ability to take certain early distributions without paying the early distribution penalty. If you withdraw assets from an employer plan before retirement, you'll pay a penalty and taxes (but many firms offer employees the option of taking loans from their accounts).

If you're fortunate enough to still have money to invest after you've maxed out on your Roth IRA, then by all means start putting it back into your DC plan. It's a good idea to have retirement money in different types of accounts, because you never know what the tax laws will be 30 years down the road. Please consult with a financial advisor or tax professional for the latest rules and regulations.

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Katie McGinley is a founding shareholder of the firm and serves as its Chief Compliance Officer. She has been engaged in the investment management industry since 2004. Katie earned a B.A. from the Williams School of Commerce at Washington and Lee University in 1997 and a J.D. from the University of Alabama School of Law in 2000. In addition to her role as Compliance Officer, she also provides management and consulting services to qualified retirement plans.

She previously practiced law in the area of commercial real estate development and lending. Katie was admitted to the State Bar of Georgia in 2000 and the Alabama State Bar in 2001.

Katie is a native of Little Rock, Arkansas. She is married to Rob McGinley and they have three children, Madison, Barclay and Mac. She and her family are members of Dauphin Way United Methodist Church, where she serves on the finance committee.

Monthly Market Commentary

Recovery, full steam ahead? It would appear so. The stock market returned 11.02% during the first quarter of 2013, and the U.S. economy continues to grow at a slow but steady pace, despite apparent volatility and instability displayed by most major economic indicators.

GDP: For starters, real GDP growth rates have been highly volatile from quarter to quarter; for example, from 3.1% in Q3 2012 to only 0.1% in Q4 2012. However, it's important to keep in mind that the data includes some measurement and seasonal-adjustment issues that may blur the big picture a little bit. Morningstar economists forecast that GDP will grow at a slow, but sustainable 2.0%–2.5% rate in 2013, very similar to 2011 and 2012.

Employment: The private sector added only 95,000 jobs in March (compared with 254,000 in February). At first glance, this number is discouraging, and the lowest in nine months. However, similar to the case for GDP above, month-to-month data is volatile, influenced by weather and other seasonal factors, and often subject to revisions. Three-month average employment growth (YOY), a more reliable data point, does show slow erosion, but no catastrophic decline (2.1% in December, 2.0% in January, and 1.9% in February and March).

The Big Four: Given all the fiscal scares, Hurricane Sandy, volatile gasoline prices, and new taxes, the U.S. economy is doing surprisingly well, according to the Big Four economic indicators (private employment growth, retail sales, manufacturing, and real disposable income). Private sector year-over-year employment growth has been steady at 2% for almost two years, while retail sales growth (adjusted for inflation and excluding autos and gasoline) has been in the 2%–3% range for almost as long. Even U.S. manufacturing data hasn't been particularly volatile, especially if weather events are removed. Of the Big Four, only real disposable income has been very volatile, and most of that volatility is due to ever-shifting inflation rates (with food and energy showing the most volatility) and changes in government tax policy, not changes in wages.

Consumer: Consumer spending continues to drive the economy, constituting about 70% of GDP. Unfortunately, consumers were severely hit early in 2013 with soaring gasoline prices, a higher payroll tax, and delayed tax refunds. On the other hand, they also have a lot going for them, including lower inflation in many categories, better employment prospects, increasing home prices and related construction activity, and a much higher stock market and related wealth effects. While consumer spending is not as robust as it once was, it is clearly not falling apart in the middle of all the economic headwinds, either.

Quarter-end insights: A lot of fiscal issues were at least temporarily "settled" this quarter, helping to reassure both consumers and businesses. The fiscal cliff negotiations and the March sequestration resulted in a total deficit reduction of about $300 billion slated for 2013. The Fed plans on maintaining a relatively loose monetary policy, assuring investors that low interest rates and bond buybacks would continue to fuel further growth. As slow as this growth may be, the U.S. economy is better positioned and growing faster than many other developed economies. Some of the factors providing a longer-term advantage include newfound supplies of oil and gas, low electricity prices, more available land for building, and an improving auto industry.

In Europe, however, the situation isn't getting better, even when excluding the effects of the Cyprus situation. The Chinese economy seems to have bottomed, and future Chinese growth (if any) will likely be lower than previous peaks, and more likely to be consumption based than focused on infrastructure. Last, but not least, U.S. corporations are starting to invest for growth again (capital spending and acquisitions), which could prove to be an effective engine for further stock market appreciation.

Investment-Related Taxes: Must-Knows for 2013

As 2012 wound down, fairly decent-sized tax hikes loomed for 2013, and tax-savvy investors and their advisors were scrambling. Dividends were set to once again be taxed at ordinary income tax rates, long-term capital gains were to jump to 20%, and estates of more than $1 million would be taxable at a 55% rate. In the end, however, the changes that did pass through Congress were much more modest. That said, maximizing tax-sheltered accounts, putting the right types of assets in tax-sheltered and taxable accounts, and properly sequencing withdrawals in retirement can still help improve after-tax returns. Here's an overview of some key tax-related changes taking effect with the 2013 tax year that may affect investment plans.

Dividend Tax: Although the impending hike in the dividend tax rate had led to a lot of hand-wringing, the modest increase that passed through Congress won't affect most investors. As in the past, investors in the 10% and 15% tax brackets will pay nothing on qualified dividends, and those in the 25%, 28%, 33%, and 35% tax brackets will pay a 15% rate on their qualified dividend income. The only change is for single filers earning more than $400,000 and married couples filing jointly who earn more than $450,000; for them, a new 20% dividend tax rate will kick in starting this year.

In general, it makes sense to place dividend payers in tax-sheltered accounts and reserve taxable accounts for holdings that don't pay dividends. The key reason is loss of control. If a company stock held in a taxable account pays a dividend, that's a taxable event for the investor, whether the investor wanted that dividend or not. (Those who hold a dividend-paying fund owe taxes on any dividends paid out, even if they reinvested those dividends back into the fund.) In contrast, by holding non-dividend payers in taxable accounts, investors won’t owe taxes unless they take action and sell shares.

Tax on Long-Term Capital Gains: As with dividend taxes, much is staying the same with long-term capital gains rates. Those in the 10% and 15% brackets will not owe capital gains tax on securities held for more than a year, while those in the 25%–35% brackets will see their long-term capital gains taxed at a 15% rate.

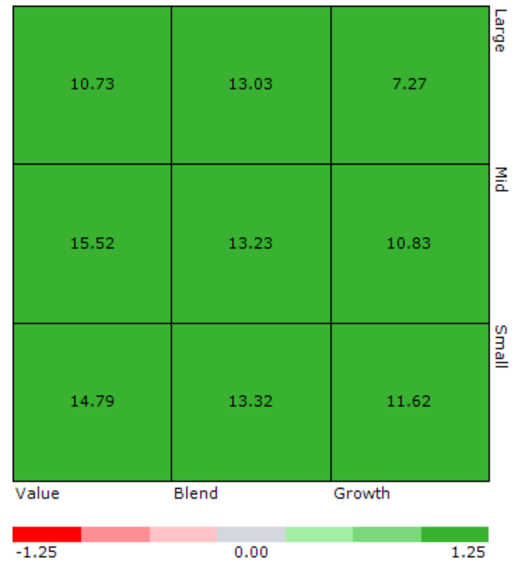
The 20% capital gains rate will kick in for the same taxpayers who are seeing a dividend tax hike: single filers earning more than $400,000 and married couples filing jointly who earn more than $450,000.

Medicare Surtax: An outgrowth of the new health-care law, this new tax was moving full steam ahead regardless of what happened with the fiscal cliff negotiations. The 3.8% tax will be imposed on the lesser of an individual's net investment income for the year or adjusted gross income in excess of $200,000 for single filers and $250,000 for married taxpayers filing jointly.

Estate Tax: Although the estate tax was poised to affect many more estates starting in 2013, the estate tax exemption will remain over $5 million ($5.25 million, to be exact) per individual, and the top estate tax rate will increase to 40% from 35% last year.

Gift Tax: The annual gift tax exclusion amount is $14,000 for 2013. That means an individual can gift $14,000 apiece to an unlimited number of people this year without having to worry about a gift tax. Savers in 529 college-savings plans can actually gift $70,000 to a single individual in a single year without triggering a gift tax, assuming they make no further contributions to that person's college plan in the subsequent four years. In that case, the Internal Revenue Service assumes that the contribution is spread over five years. Married couples can actually contribute $140,000 to one child's college-savings plan in 2013, assuming they make no further gifts from 2014 through 2017, without triggering the gift tax. Also, when gifting to pay educational or medical expenses, taxpayers can circumvent the gift tax system altogether by making payments directly to the educational or medical institution.

Quarterly Market Barometer



3 Month, ending March 31, 2013. The U.S. Market returned 11.02% (YTD 11.02%).

The Morningstar Market Barometer provides a visualization of the performance of various stock market indexes. The color scale (red for losses and green for gains) allows you to assess which areas of the market performed strongly and which areas showed weakness for the time period analyzed. The nine-square grid represents stocks classified by size (vertical axis) and style (horizontal axis). There are three investment styles for each size category: small, mid and large. Two of the three style categories are “value” and “growth” while the central column represents the core style (neither value nor growth characteristics dominate). Large-caps account for the top 70% of the capitalization; mid-caps represent the next 20%; and small-caps represent the balance.

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