

# THE EAST END FINANCIAL GROUP

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*Kosinski Associates, Inc.*  
318 Roanoke Ave.  
Riverhead, NY 11901

Phone: 631-727-8111  
Fax: 631-727-1817  
*www.eastendfinancialgroup.com*

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## **Review of the First Quarter of 2014**

Other than Putin's land grab of the Crimean section of the Ukraine and Malaysian Flight 370, not much happened during the first quarter of 2014. During the quarter the S&P 500 gained all of 1.8%, the NASDAQ edged up 0.5% and the Dow Jones lost 0.7%. Foreign markets were also about flat. The S&P 500 did quickly drop 5.8% during the last two weeks of January, the largest correction since April 2012 almost two years ago. Even with the lack of news, the markets exhibited strong volatility with the Dow Jones advancing by 100 points or more in a day 13 times and declining by 100 points or more in a day 10 times.

In the bond market, concern early in the quarter about slowing U.S. economic growth along with a flight to quality in the face of emerging-market volatility helped drive yields lower on U.S. Treasury securities. Thereafter, Treasuries traded in a relatively narrow band. The yield of the bellwether 10-year Treasury note declined to 2.73% on March 31, from 3.04% at the end of 2013.

Lower yields produced a favorable backdrop for bond prices. (Bond prices and yields move inversely to one another.) For example, the Barclays U.S. Aggregate Bond Index, which holds Treasuries and other investment-grade debt securities, gained 1.84% for the quarter. High-yield bonds were one of the bond market's better performers, with the Barclays U.S. Corporate High-Yield Bond Index rising 2.98%.

*(Note that unless noted all figures represent total rates of return, measuring both price changes and reinvested dividends, supplied by Morningstar)*

## **Investment Outlook**

In general, we think investors should pull back on risk when enthusiasm is running high and the market's valuation is relatively rich. Applying Warren Buffett's "be fearful when others are greedy and greedy when others are fearful" mantra, we think the pendulum is swinging closer to the side of greed at the moment. In contrast, we see value in adding to risk when fear is pervasive and valuations are depressed.

In fact, we often relish times of uncertainty as it allows us to buy assets on-the-cheap. When the market pulls back 5, 10% and more, we want to be buying these dips either by using cash or exchanging from income assets. It's a good feeling to hope for a pullback in stocks rather than fearing every 100 point drop in the Dow.

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### **New York State Estate Planning Update**

For those of you who are New York State residents, we wanted to make you aware of the recent and significant changes in the New York Estate Tax rules passed by the New York State Legislature and effective as of April 1, 2014. This legislation is very complex and will require you to carefully review your Estate Tax planning with your Attorney.

**The New York State Estate Tax:** New York State no longer has an Estate Tax Exemption. As of April 1, 2014, there is an 'exclusion' amount of \$2,062,500 which is scheduled to increase each year by approximately \$1million until 2017 when the exclusion amount will be \$5.25 million. As of January 1, 2019 the exclusion amount will match the Federal Exemption that year going forward.

#### **For date of death as of: New York State exclusion amount:**

April 1, 2014 and before April 1, 2015 \$2,062,500  
April 1, 2015 and before April 1, 2016 \$3,125,000  
April 1, 2016 and before April 1, 2017 \$4,187,500  
April 1, 2017 and before January 1, 2019 \$5,250,000  
After January 1, 2019 \$5,900,000 (*projected*)

The most significant change in the law is that for estates in excess of 105% of the 'exclusion amount' there will be a New York State Estate Tax based on the entire gross estate. This is becoming known as the 'New York Estate Tax Cliff.' For example, assume you die on July 1, 2014 with an Estate valued at \$2.17 million. The exclusion amount is \$2,062,500 but the value of your Estate (in this example) is in excess of the 105% threshold so the entire \$2.17 million is taxed. There is no exclusion, or any exemption applied. The formula to calculate the actual tax is complicated but the result is actually a higher tax than if this same Estate were subject to the prior New York exemption of \$1 million. The top tax rate remains 16%.

**Lifetime 'gifts' made within three (3) years of death:** The value of any gifts made on or after April 1, 2014 and before January 1, 2019 (while the donor was a New York resident) will be 'clawed' back into the value of the gross Estate for New York State Estate Tax purposes.

**Generation-Skipping Transfer Tax:** New York has repealed the Generation Skipping Transfer Tax.

**The New York Estate Tax versus the Federal Estate Tax:** The rules are vastly different. Many people have assumed New York has changed its rules to correlate to the Federal Estate Tax program but this is incorrect.

Among many important differences, New York continues to offer no 'portability' of any unused exclusion amount (there is no longer an exemption) after the first spouse dies.

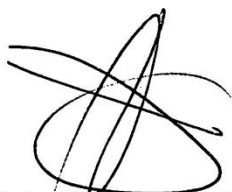
***It is more imperative than ever for New York State residents to carefully plan their Estates.  
Contact your attorney to see how these changes may affect you.***

## Summary

Although we can easily examine the market's historical performance, no one has yet discovered a crystal ball to predict what the market is about to do. Diversification and adjusting a portfolio's allocation to various asset types can smooth out volatility and provide more predictable long-term return expectations, but they can never completely remove volatility. This unpredictability makes it important to be certain you are comfortable with your account's asset allocation, which governs how your capital is divided among stocks, bonds, cash, and other asset classes.

During our next review, we can discuss whether your current portfolio asset allocation model fits your risk tolerance level. Expect to hear from us soon.

Best regards,




John J. Kosinski, CLU, ChFC, MSFS  
President



Joseph Kosinski, ChFC®  
Investment Advisor



Annmarie Zilnicki  
Vice President



Ernest Vorpahl, CFP®  
Investment Advisor



Colin Moors  
Registered Associate



Jack Kosinski  
Investment Advisor



Meredith Diamond, CFP®  
Investment Advisor