



PERSPECTIVE

2nd Quarter 2010

www.doylewealth.com

Successful Investing? Block out the noise and stick to your principles



After the market roller coaster of 2008 and 2009, the first quarter of 2010 has been blessedly uneventful by comparison – the stock market ended the quarter up slightly from where it began.

Causes for concern...and optimism

Even with the stabilization of the global economy, there is no shortage of short-term worries:

- ✓ Continued questions on the direction and timing of the economic recovery in the United States and Europe.
- ✓ U.S. housing prices that remain stubbornly low and unemployment levels that remain stubbornly high.
- ✓ Growing federal deficits in the United States and Europe.

The good news is that there are many positives in the economy even if the media headlines are not so prominent:

- ✓ On March 22nd, the *Wall Street Journal* ran a story about dividend hikes as a result of rising profits by U.S. companies. The article also mentioned that cash on the balance sheets of U.S. companies was at the highest level since 2007.
- ✓ On the same day, the *Financial Times* ran a similar story about dividend increases in Europe.
- ✓ In the U.S., there is growing attention to the increase in manufacturing productivity and how this is often a precursor to future economic expansion.

Forecasting the future

If you watch TV or read newsletters for investing advice, the discussion tends to revolve around which stocks will do well today, this week, or this month. We refuse to participate in that speculation. When it comes to short-term predictions it is literally anyone's guess. No one has a consistent track record of successfully fore-

casting short-term movements in the stock market or the economy. John Galbraith said it best about forecasters:

"We have two classes of forecasters: Those who don't know – and those who don't know they don't know."

Core investment principles

Rather than spend our time trying (in vain) to predict short-term movements, we adhere to a disciplined strategy and follow our core investment principles with continued success.

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John Galbraith

Have a plan (and stick to it) - In the face of economic and market uncertainty, a key to success is having a diversified plan appropriate to your risk tolerance and then sticking to it. We believe in putting an individual plan in place for each client that will meet their long term needs and modifying the plan, as circumstances warrant, without walking away from the plan itself.

Concentrate on quality – The record bounce in stock prices over the past year was led by companies with the weakest credit rating. Some have referred to last year as a “junk rally,” with the lowest quality companies doing the best. That is unlikely to continue and that is why we focus our portfolios on higher quality

companies that will be best able to withstand the inevitable ups and downs in the market.

Build in a buffer – Given that we have to expect continued volatility, we identify cash flow needs for the coming year for every client and invest these funds in less volatile securities. That buffer protects clients from short-term volatility and reduces stress along the way.

At Doyle Wealth Management, our core investment principles are built on our disciplined approach to investing and our strict adherence to our successful time-tested strategies. Thank you for allowing us to serve as your investment advisor.

By Robert K. Doyle, CPA, PFS

Our Investment Principles



Perhaps the most often asked question of us from clients and prospective clients is how do you evaluate a stock? To answer that, let me first begin by telling you how we build each portfolio and then I will discuss our stock selection strategy.

Asset Allocation and Security Selection

The two building blocks of our strategy are asset allocation and security selection. No single facet of the investment process will contribute more to risk control and investment returns (with a trade-off between risk and return) than the asset allocation decision.

The asset allocation decision is based on our understanding of each client's long-term goals, growth objectives, income needs and tolerance for risk. For clients with higher growth objectives and higher tolerance for risk and volatility, our portfolios will be more heavily weighted toward equities. We do this with an expectation that, over long periods of time, equities will provide the highest return to investors.

For clients with greater income needs and lower tolerance for risk and volatility, portfolios will be more balanced between equities and fixed income.

Our security selection process is based on finding the appropriate securities in each asset class – stocks, bonds, money markets, commodities, REITs – to build a diversified portfolio tailored to each client's need for growth, income, diversification, and risk management.

Stock Selection Strategy

We agree with Warren Buffett when he says “our goal is to find an outstanding business at a sensible price, not a mediocre business at a bargain price.” When it comes to individual stock selection, our primary focus is to find quality companies, with favorable long-term prospects, selling at moderate valuations. This perspective is applied to companies in all economic sectors, and numerous industry groups within these sectors, to develop a truly diversified portfolio of stocks. Our preference is to develop individual investment ideas, one at a time, rather than making big-picture, macro calls on the overall stock market or a narrow area of the market.

We employ a blended investment strategy emphasizing fundamental research and analysis, complemented by quantitative investment

models and technical analysis. In addition to our company-focused research, we continually monitor trends in the US economy, the business sector and the financial markets.

Central to our style is a belief that companies with certain traits will generally outperform the broad stock market over a reasonable investment horizon. These traits include:

- ✓ Consistent or above-average growth
- ✓ Market Leadership – number one or two in their industry
- ✓ Pricing Power
- ✓ Varied Sources of Growth
- ✓ Stable or Growing Margins
- ✓ Free Cash Flow
- ✓ Return to Shareholders – dividends or share repurchases
- ✓ Balance Sheet Strength

These are the investment principles that are central to our core philosophy. These principles, coupled with a strict adherence to a disciplined approach are what drives us daily in our portfolio management.

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By Mike Murray, CFA

Tax Impact of the New Health Care Law



As many of you already know, on March 23rd, President Obama signed the health care reform package approved by the House. The Patient Protection and Affordable Care Act (Patient Protection Act) is now law. Many of our clients have been asking how the tax provisions of this new law will impact them and their portfolios. The tax provisions

are too numerous to list here, so I will touch on just a few.

Additional Medicare payroll tax

The Medicare tax has always been a payroll based tax and is levied on the wages of workers. Currently, the tax is 2.9% of wages. The employee pays 1.45% and the employer matches it at 1.45%.

To help pay for the health care reform bill, the Medicare payroll tax will go up starting in 2013 on individual workers earning over \$200,000 and married taxpayers earning over \$250,000 in wages. The tax will go from 1.45% to 2.35% on wages earned over these thresholds.

New Medicare tax on investment income

In addition to the higher Medicare payroll tax, high-income households will also be subject to a new 3.8% Medicare tax on investment income starting in 2013. This additional Medicare tax will apply only to the employee portion of the tax. Right now, neither the \$200,000 nor the \$250,000 amounts are indexed for inflation. This is the first time since Medicare was enacted that the tax will apply to something other than wages.

Investment income includes interest, dividends, annuities, royalties, rents, capital gains, and income from passive activities. Any "tax-exempt" investment income will not be subject to the new law.

Estates and trusts would also be liable for this additional tax. However, distributions from retirement plans and pensions will be exempt from paying the additional tax. Withdrawals from IRAs will also be exempt.

Capital gains tax increase?

Unrelated to the recent health care legislation, President Obama has proposed allowing the 15% tax on dividends and capital gains to rise to 20% starting in 2011. This 20% tax on dividends and capital gains plus the new Medicare tax of 3.8% on investment earnings in 2013 will raise the capital gains tax rate for high income taxpayers to 23.8% in 2013. The current rate is 15%.

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Out of pocket costs

Another provision that is likely to impact a high number of taxpayers is the deductibility of medical expenses on your personal tax return. Currently, medical expenses are deductible once they exceed 7.5% of your adjusted gross income. That is a pretty high hurdle as it is, but starting in 2013, the bar will increase to 10% of adjusted gross income before you can deduct any medical expenses. The twist on this provision is that it only applies to those under age 65. Since it does not take effect until 2013, if you are age 62 or older now, this provision will not apply to you.

Another potential out of pocket cost will be a restriction on what taxpayers can buy using their Health Savings Accounts (HSAs). Currently, consumers can use their pre-tax dollars in an HSA to buy over-the-counter medications. That will no longer be allowed starting in 2011 under the new legislation.

We are analyzing many of the other provisions in this new law for their potential tax impact on our clients. We will continue to keep you apprised of financial provisions, and we will be looking for opportunities as well.

By Jillian Doyle, CPA

CHECK OUT OUR NEW WEB SITE

Please take a moment to look at our new web site. It will have a host of features, including the ability to access your TD Ameritrade accounts. Check back frequently, as we will be continually adding new items of interest and helpful suggestions.



New Office Location and Appointment of Anne Drake - Vice President of Business Development

Though we will continue to experience rallies and pull backs as the economy strains to expand, the market's motion noticeably reflects a positive trend line. We have strategically positioned our clients to take advantage of current economic conditions, employing the disciplined approach that carried us through the last two years.

As economic recovery gradually percolates through business, financial and government sectors, Doyle Wealth Management has experienced client and asset expansion that brings us to our new office location in St. Petersburg, Florida. The phone number remains the same and our new address can be found at the bottom of the newsletter.

With this growth, I am proud to join Doyle Wealth Management as Vice President of Business Development to guide our long-term investment in the community, promoting the strengths of the firm to business and government leaders. With a strategic plan to capitalize on emerging economic optimism, we anticipate a continuation of the regional growth we have experienced in recent years. As volatile markets calm, we are poised to expand the firm to better serve our clients and community. I look forward to meeting you when you visit the new office or talking with you by phone.

By Anne Drake, Vice President of Business Development



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