MCM MONTGOMERY CAPITAL MANAGEMENT

CAPITAL WATCH

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ON THE CLOCK: GRANDPARENTS PAYING FOR COLLEGE

Paying for college can be a cumbersome task. Contributions from family members, like grandparents, are usually a welcome addition to any college fund. Here are three guidelines to get started:

Help from grandparents can reduce your need-based financial aid. If there is no need-based aid, you can handle grandparent contributions any way you want.

The best place to start is the EFC Calculator at fafsa4caster.ed.gov, which will provide an estimate of your Expected Family Contribution (the minimum amount that the federal government expects you to pay). If that number is close to or less than the cost of the colleges on your list, you might be in the running for need-based aid.

Timing can impact financial aid. The gift will count as "income" on financial aid forms. If the money is given directly to the student, it will be considered "income" to the student and may reduce need-based aid.

The best option is for the grandparents to give the money to the parents for college costs and do so before December 31 of the student's junior year in high school to lessen impact on financial aid.

Are 529 plans a good option? Before grandparents open 529 plans, they should keep in mind that when the money is withdrawn, it will count as "income" on financial aid forms to the student. This could reduce aid by up to 50% of the distribution!

To avoid this and still use a 529, open it as a parent-owned 529 and the grandparents can make a deposit to the account.

UP TO THE MINUTE

What moves a stock price?

By watching the news or reading the paper, you might think it's based solely on the latest breaking news or earnings report.

Much can be learned when you step back and examine the big picture.

We have the highest respect for stock market valuation work done by Ed Easterling, Doug Short, Robert Shiller, and John Hussman. The most well-known measure of stock market valuation is their P/E Ratio, which divides the current price of the S&P 500 index by the total earnings of the 500 companies in it. Why does this matter? Over the long term, stock prices reflect future expected earnings, and earnings tend to increase with economic growth.

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Like a house, stocks are a financial asset. You don't want to pay too much for a home if you plan on selling at a profit. The P/E Ratio provides the same type of information about stock prices. If you make long-term investments when the P/E Ratio is relatively high, you should not expect superior returns. Even buying solid stocks can be tough when the entire market is overvalued.

So where do we stand today?

The work of the firms mentioned offers some insight. The S&P 500 index is approaching historic extreme valuations. According to John Hussman, the median stock in the S&P is more overvalued than at the 2000 bubble peak.

If history is any guide, the odds of earning satisfactory equity returns over time are much better when stocks are undervalued vs. overvalued.

753-B THIMBLE SHOALS BLVD. NEWPORT NEWS, VA **(757) 597-9525** WWW.MONTGOMERYCAP.COM

TIME IN THE SPOTLIGHT:

MONEY MARKET MAYHEM

Cash held in your money market fund is always available to you, right? Not really.

New regulations will be in effect soon. They stem from safety concerns that arose during the financial crisis of 2008 when money market funds became targets of massive withdrawals almost overnight. The new regulations are significant enough that we want to be sure you are aware of what is going on.

Under the new rules, cash in a money market "may" be available to you. What does that mean?

During periods of market stress, some money market funds may restrict access to your money by either charging liquidity fees or halting withdrawals.

That might sound reasonable, but it raises the question: what is a time of "extraordinary stress?" That might be exactly when you want your money! We believe the money you hold in money market funds should be available to you at any time.

There is an exception: Government and U.S. Treasury money markets will not be subject to the restrictions. This means that you want to ensure that all of your money markets, whether held at Schwab or with other custodians, are classified as U.S. Treasury or Government money market funds.

Custodians will be sending out more information over the coming weeks, but it's easy to overlook such legalese. The rules do not become official until 2016, but many are moving ahead now to make the necessary changes and classifications.

The large majority of MCM clients are already properly positioned in Government or Treasury funds. As Schwab clarifies its plans, we will be in touch with any client who wants to take advantage of the new rules.

R-E-W-I-N-D

Montgomery Capital Management's philosophy is deeply rooted in the thinking and insights of our founder, the late Paul Macrae Montgomery. Paul was well-known for his innovative work on cycles. One interesting example occurs early in March each year. Here's a look back to 2009:

From Universal Economics, March 12, 2009:

We all know the negative associations of the "Ides of March," or March 15th, primarily through Shakespeare's nameless soothsayer who warned Caesar to beware that date. Historically, Caesar was in fact stabbed to death on March 15, 44 BC. Less well known, however, is the fact that this anonymous soothsayer was not a mere poetic device. He and his warning also were historically real. Both Plutarch and Suetonius reported that a well-known astrologer, Titus Vestricius Spurinna, had on more than one occasion warned Caesar of some imminent tragedy that would befall him by March 15th of that year.

We do not know exactly what Spurinna was looking at, but we do know that the time around "The Ides of March" is often a significant time according to our analytic protocols. As we have discussed at length, the state function of the human species undergoes neuro-physiologic extremes proximate to both the autumnal and the vernal equinoxes; viz., circa September 20th and March 20th respectively. We have also detailed the fact that the human nervous system also presets measurable electromagnetic extrema coincident with lunar phases. This latter fact is pertinent to the current discussion because the Ides of March was not initially March 15th. From time immemorial, the Ides of March meant the Full Moon in March. Much later, around the 5th century BC, the Roman calendar was changed so as to give the various months a set number of days. The first day of March, or the kalends, which previously coincided with the New Moon, was decreed always to be March 1st irrespective of the date of the actual New Moon. And "The Ides of March" were decreed always to be March 15th irrespective of the date of the actual Full Moon.

The Full Moon of March 10-11, 2009 coincided with the low of the correction. The high on March 2, 2015 also coincided with the lunar Ides of March. However, it is important to note that the S&P 500 remains near that March 2nd level, so it is too early to call it a top.

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