# The COMPASS Chronicle

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## Conrad Named Five Star Wealth Manager for Fifth Time

For the fifth time, Lou Conrad, CFA has been named a Five Star Wealth Manager. This award was announced in the February issue of Boston magazine. The Five Star award is based on ten objective criteria, which include a favorable regulatory review, client retention rates, and education and professional designations. The Five Star award was awarded to less than one-quarter of the financial advisors in the Boston metropolitan area.

Separately, a little more than one year ago, Lou joined the board of directors for Minuteman Senior Services (MSS), an organization based in Bedford, MA, devoted to helping seniors and the disabled live in their setting of choice in sixteen communities northwest of Boston. More recently, Lou accepted the role of Assistant Treasurer and joined the Executive Committee of MSS.

### Addition to COMPASS' Staff

COMPASS is also pleased to announce that Alex Grotevant, a senior at Bentley University, has joined the firm as an intern. Alex is majoring in Economics and Finance and spent the past two fall semesters studying overseas (China and London). He previously worked at BNY Mellon and Cape Cod Five Cents Savings Bank. He has already made a positive impact at COMPASS, completing two projects, including the selection of a software program to assist COMPASS in analyzing the optimum Social Security strategy for clients as they approach retirement. Alex also wrote this month's article on the "Dirty Dozen" tax scams as assembled by the Internal Revenue Service.

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### More about COMPASS Wealth Management, LLC

COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

We take pride in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is our business and we take that responsibility very seriously.

For details on the selection criteria used to determine the recipients of the Five Star Wealth Manager award, please visit our web site.

# The "Dirty Dozen" Tax Scams of 2015

By Alex Grotevant

- Each year the IRS assembles a list of one dozen tax scams, which it calls the "Dirty Dozen", to call attention to the fraudulent activity that it has witnessed in regard to the tax collection system.
- Alex reviews the twelve tax scams and offers a suggested course of action for each.
- Since we are in the midst of tax season, to which few look forward to, we have also included a lighter look at taxes on this newsletter's back page.

Every year, taxpayers in the United States are confronted with con artists and their deceptive scams. These scams, which can take a variety of forms, are intended to solicit the personal financial information of taxpayers. Fortunately, in the midst of this year's tax season, the Internal Revenue Service (IRS) has released its 2015 "Dirty Dozen" list of tax scams. The purpose of the list is to raise taxpayer awareness of the various types of tax scams they could encounter or participate in themselves. While there are countless types of tax scams that have been reported in recent years, the "Dirty Dozen" detailed by the IRS are among the most common in the United States. They are as follows:

(1) Phone scams involve a con artist who calls a taxpayer while pretending to be an authoritative figure, such as an IRS agent. In an attempt to draw personal information from the taxpayer, these aggressive phone calls threaten the taxpayer with "police arrest, deportation, [and] license revocation" among other things. If you ever find yourself in such a situation, you should be aware that the IRS would never demand the immediate payment of taxes without having mailed a statement first. Additionally, the IRS would never threaten to involve law enforcement for failure to pay taxes.

(2) Phishing, another popular type of tax scam, targets taxpayers through links within fake e-mails and web sites that ultimately attempt to steal personal information. The best rule-of-thumb with phishing is to avoid opening strange and unexpected e-mails or web sites that require the entry of personal information.

(3) Identity theft arises when a con artist files falsified tax returns using another individual's Social Security number (SSN). The best way to avoid such scams is to keep close watch of your personal information and to be extra careful of your SSN.

(4) Return preparer fraud occurs when corrupt tax preparers or con artists posing as tax professionals use taxpayers' personal information at the expense of the taxpayer. While the vast majority of tax professionals are legitimate, it is always good practice to ensure the tax professional has an authorized IRS Preparer Tax Identification Number (PTIN).

(5) Offshore tax avoidance includes any attempt by a taxpayer to avoid paying higher taxes by concealing their money or assets in offshore accounts. Taxpayers should avoid partaking in such activity and should understand the legal implications of offshore tax avoidance.

(6) Inflated refund claims are used by con artists to incentivize taxpayers to do business with them. In situations where you are promised a greater refund by someone before even providing your tax documents, you should recognize that the promise is likely too good to be true.

(7) Fake charities are designed by scam artists with the intention of luring taxpayers into making donations that could be tax-deductible. Before you offer your money or provide a charity with personal information, you should ensure the charity's legitimacy using the Exempt Organizations list provided by the IRS at IRS.gov.

(8) Hiding income with fake documents should be avoided by taxpayers at all costs. If a tax professional suggests falsifying your tax documentation in order to reduce tax liabilities or increase total refunds, you should certainly reject the proposal given you are the one legally responsible for the content of your returns.

(9) Abusive tax shelters are another illegal scam used by taxpayers in order to avoid paying the full amount of taxes due. Taxpayers should never use abusive tax shelters and authorities are constantly monitoring this criminal activity.

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# The "Dirty Dozen" Tax Scams of 2015, continued

(10) Falsifying income to claim credits is a common scam in which taxpayers report additional income to claim higher tax credits. In order to avoid facing criminal charges, taxpayers are advised to complete their tax returns with the most accurate and truthful information they have.

(11) Excessive claims for fuel tax credits are considered “frivolous tax claims” by the IRS and can be punished by a penalty of up to $5,000. Again, the best way to avoid the legal consequences of such scams is to file returns using the most accurate information available.

(12) Frivolous tax arguments are the final tax scam to appear on the “Dirty Dozen” list. Quite simply, taxpayers should never make exaggerated claims with the intention of avoiding the full payment of the taxes they owe.

While the IRS Criminal Investigation unit and the Department of Justice (DOJ) work diligently to catch the perpetrators of these illegal scams, you are encouraged to play an active role as well. Regardless of whether you are the victim or suspect of a tax scam, you should always be cognizant of the fact that you are legally responsible for the content of your tax returns irrespective of who actually prepared them. Therefore, the best way for you to minimize your risk is to educate yourself of the nature of these scams. For more information, please refer to IRS.gov where you can find a more in-depth review of this year’s “Dirty Dozen” tax scams.

# COMPASS Capital Market Update

By Louis E. Conrad II, CFA

- After a better than expected 2014 in U.S. stock and bond markets, COMPASS expects returns in the U.S. markets to be muted this year, while international stocks are expected to improve upon their weak 2014 performance.

Last year proved to be a better year for both stocks and bonds than COMPASS had expected. U.S. stocks, as represented by the S&P 500 Index, advanced over 13% for 2014, though this masked weakness among stocks of smaller companies, which did not appreciate as much. International stocks, both in the developed and emerging markets, actually declined in value during the year as the U.S. dollar’s strength proved a headwind that international stocks could not overcome.

For 2015, COMPASS believes that the U.S. dollar, while it may appreciate further relative to the euro and emerging market currencies, will not enjoy the same level of appreciation as it did in 2014. This, when combined with the quantitative easing program now being pursued by the European Central Bank, should result in better stock performance overseas this year. COMPASS expects that U.S. stocks will advance 5 – 9% in 2015 given the subdued revenue gains expected and companies’ historically high profitability levels.

The performance of bonds last year was most surprising as the interest rate on the 10-year U.S. Treasury ended 2014 at 2.17% after beginning the year at 3.03%. This resulted in a bond rally in which the Barclays Aggregate Bond Index gained 6% in 2014, whereas COMPASS had feared a bond correction if interest rates increased. Consequently, COMPASS positioned client portfolios to have less interest rate risk (also known as duration risk) so that principal would be relatively protected should interest rates advance. Though this positioning did not pay off in 2014, COMPASS continues to believe that interest rates are likely to advance in 2015. If this forecast is proven correct, the diversification and shorter term maturity of the bonds held by COMPASS’ clients will help shield their portfolios from what could be a meaningful correction in the general bond market.

# Monthly Market Commentary

In recent international news, the eurozone and Greece agreed to extend Greece's aid program, which helped European and North American stock markets to dash to the upside along with higher interest rates.

Employment: The U.S. economy added a surprisingly strong 295,000 jobs in February, well ahead of the market's expectation that just 240,000 jobs would be added. The growth figure was also well above the 12-month average of 275,000 jobs added.

However, the trend over the past several years has been that, despite seasonal adjustments, job growth has looked remarkably strong in late winter and early spring, only to fall apart over the summer months. Based on this trend and other soft spots in the economy, Morningstar economists caution that this may be the best jobs report we see for some time.

The business and professional services sector added 51,000 jobs, which is great news because these jobs have long hours and great pay. This is also the sector that includes most of the office professionals who quickly come to mind when we think about quality jobs.

The unemployment rate dropped to 5.5%, the high end of the 5.0%–5.5% range considered to be the natural, or normal, rate of unemployment. This tends to support Morningstar economists' long-term thesis that we are approaching the point where labor market scarcities are going to become more prevalent.

This relatively low unemployment rate is also likely to make the Federal Reserve more prone to raise rates. The whole reason the Fed forced interest rates so abnormally low was to aid the employment market. That work now looks largely complete. However, with inflation rates (the other half of the Fed mandate) so low, they won't necessarily have to rush. Morningstar economists remain convinced that 2015 will be the year the Fed tightens, but the exact month this will occur remains frustratingly elusive.

Manufacturing: The ISM Purchasing Managers Index for manufacturing slipped modestly in February from 53.5 to 52.9. Year-over-year growth in industrial production (what ISM is meant to forecast) has remained relatively stable over the past several months. However, the move to 52 from 57 last summer suggests that manufacturing isn't accelerating any more. And the auto industry, while improving, is also beginning to slow.

After industrial production peaked at just over 5%, year over year, manufacturing growth is likely to drop back to a 3%–4% growth rate in 2015, but still above the long-term average of 2.6%. Nevertheless, this expected manufacturing growth reduction is one of the reasons that Morningstar economists are less bullish than others on the GDP outlook for 2015.

Housing: Home prices jumped by 1.1% between December and January, according to the latest CoreLogic report. Higher home prices at this point in the recovery are not necessarily a good thing for the economy. Higher prices have reduced affordability and certainly affected existing-home sales in 2014.

Gasoline prices were up almost 10% in February, after falling 17% in January. Furthermore, based on refinery issues, especially in California, and a relatively higher price of crude, the AAA is projecting that gasoline will be up at least another $0.20 in March, or about an additional 8%.

U.S exports didn't look good either, declining 2.9%, although labor issues at West Coast ports may be part of the problem. Weekly shopping center growth rates also continued to slow. Consumer incomes were one of the bright spots, with a month-to-month increase of 0.9%. However, consumers refused to spend their newfound wealth, at least for now, as the savings rate has moved up from 4.5% to 5.5% over the past two months. That could provide some fire power for additional consumer spending in the months ahead.

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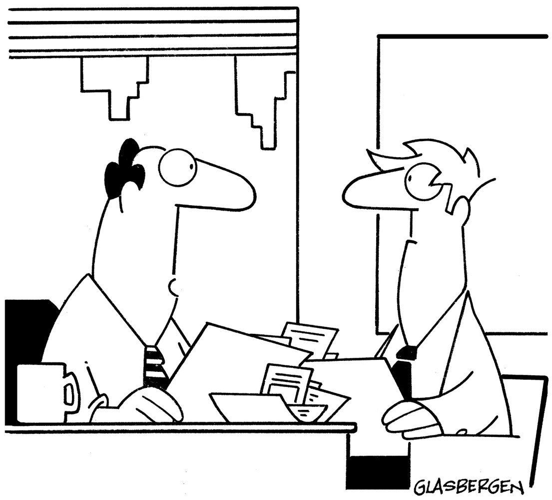


**"You want a tax cut? Write a check to the government and drag it across your finger really fast."**



FIVE STAR WEALTH MANAGER 2015 Louis E. Conrad II Multi-Year Winner

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