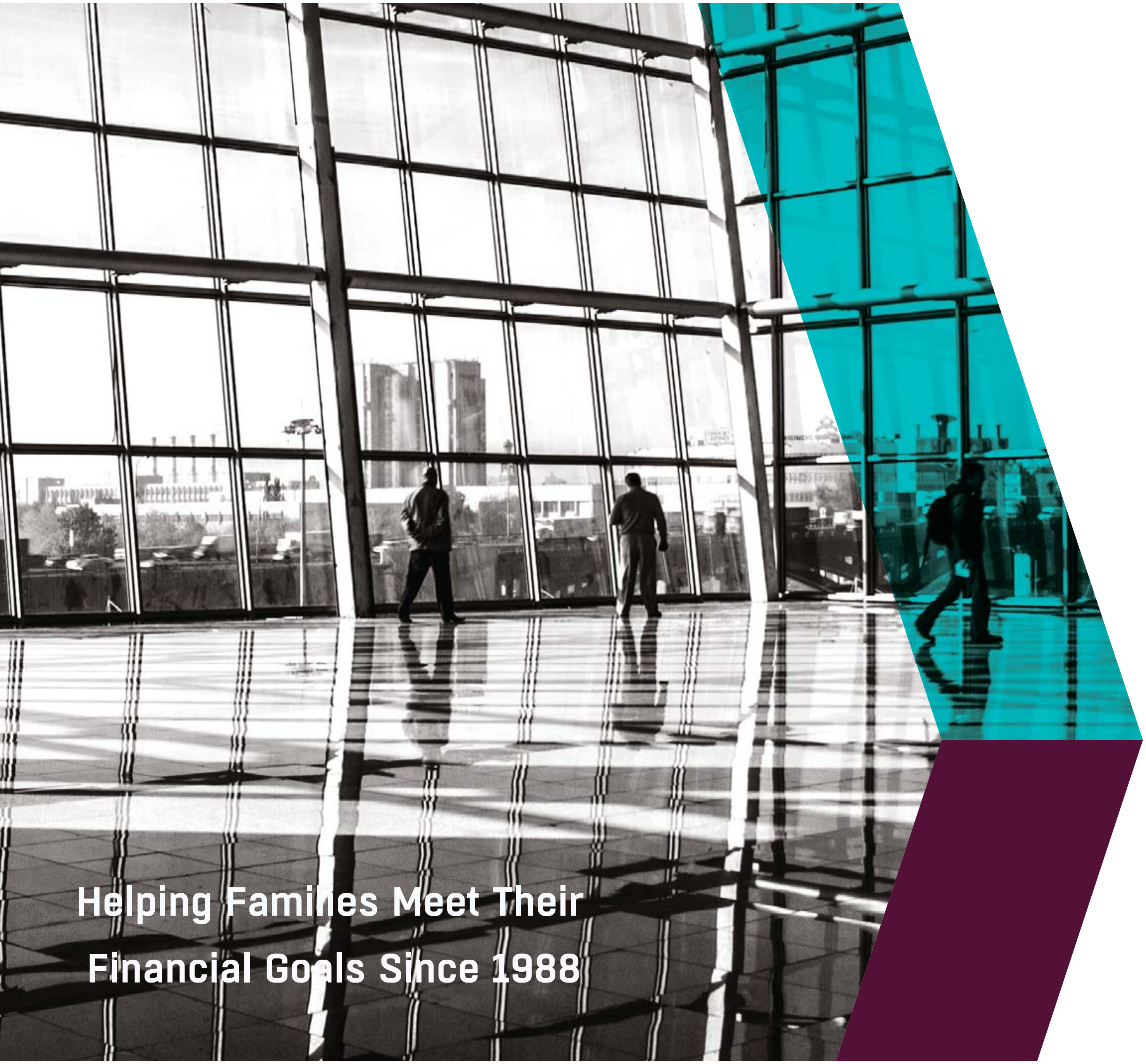
REFLECTIONS

3rd Quarter Newsletter 2014



WINDGATE
WEALTH MANAGEMENT

GIVE THE GIFT OF A ROTH IRA

INSIDE THIS ISSUE

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Financial Planner

This holiday season, for your child (or grandchild) who has everything, consider the gift of a Roth IRA.

Roth IRAs are a widely popular investment strategy and for good reason: qualified Roth IRA earnings are tax-free and there is no required minimum distribution (RMD), making these accounts a powerful tool for both retirement and estate planning. Investors pursuing Roth IRAs face two main obstacles however: income limits and shorter time horizons. For married couples with an AGI above $193,000, Roth IRAs are disallowed. Furthermore, investors in their prime working years may only have 10-15 years until retirement, diminishing the total number of years Roth contributions can compound tax-free.

Yet there is an excellent way for high-earning families to still take advantage of a Roth IRA. What many may not know is that children can make Roth IRA contributions if they have compensation. And these contributions can come in the form of a gift. So, if your 15 year-old child or grandchild has earned $5,500 at a summer job, you can gift them up to $5,500 (the maximum annual contribution) to invest in a Roth IRA in their own name.

If you have any questions or comments, or if you know of any friends or family that might benefit from our services, please give us a call at 800.331.8936

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Gifting a Roth IRA to a child is an outstanding way to introduce them to the concept of savings and investment. Because you can only gift and contribute an amount equal to a child's earned income for a given year, a Roth IRA gifting plan may even motivate them to work more or apply for that summer job. Most importantly, assuming children properly care for their Roth IRAs and do not make unqualified withdrawals, these accounts will become significant assets.

If your 15-year old child or grandchild has earned $5,500 at a summer job, you can gift them up to $5,500 (the maximum annual contribution) to invest in a Roth IRA in their own name.

The Amazing Power of Compound Interest

Most investors understand the power of compound interest – the cycle of earning "interest on interest" which can cause wealth to rapidly snowball. To understand this deceptively simple concept, a visual cue may be helpful. Try using the chart on the next page to explain to your working (or soon to be working) child how by investing early they can reap huge rewards. The simple fact is that when you start saving outweighs how much you save.

Seen below, Alice, Barney and Christopher experience the exact same 7% annual investment return on their retirement funds. The only difference is when and how often they save:

- Alice invests $5,000 per year beginning at age 18. At age 28, she stops. She has invested for 10 years and $50,000 total.
- Barney invests the same $5,000 but begins where Alice left off. He begins investing at age 28 and continues the annual $5,000 investment until he re tires at age 58. Barney has invested for 30 years and $150,000 total.
- Christopher is our most diligent saver. He invests $5,000 per year beginning at age 18 and continues investing until retirement at age 58. He has invested for 40 years and a total of $200,000.

A 7% annual return is hypothetical. Past performance is no guarantee of future results.

GIVE THE GIFT OF A ROTH IRA (CONTINUED)

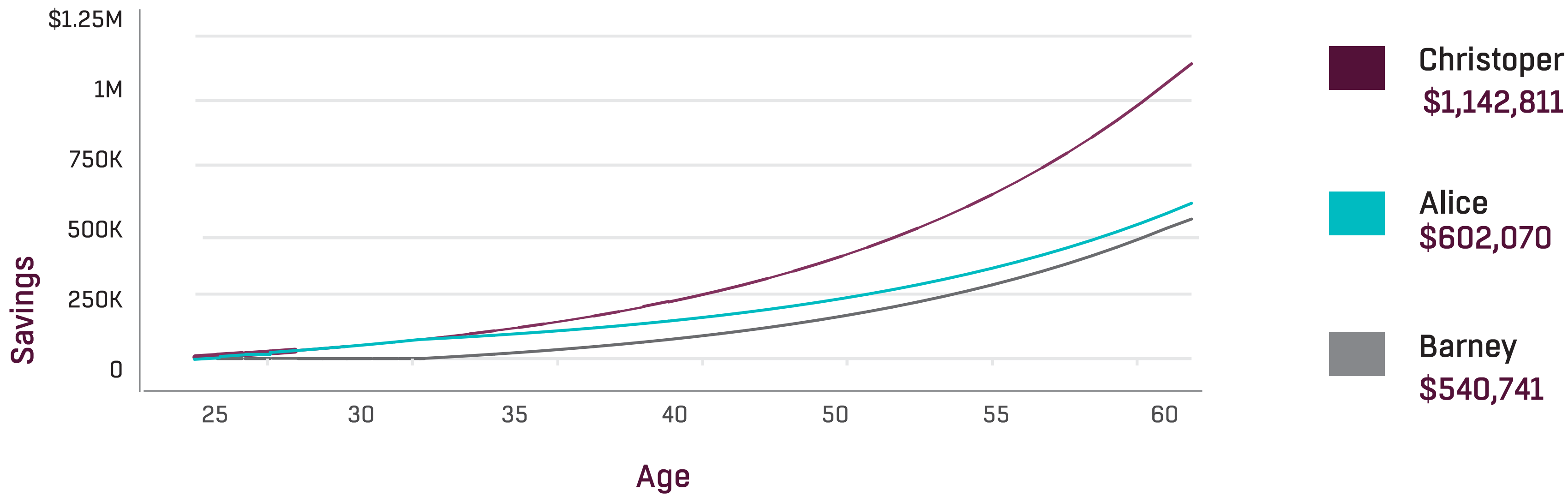
Growth of Savings Accounts

- Alice invests $5,000 annually between the ages of 18, and she stops at age 28.
- In total, she invests $50,000

- Barney invests $5,000 annually beginning at age 28 until he is 58.
- In total, he invests $150.000

- Chris invests $5,000 annually between the ages of 18 and 58.
- In total, he invests $200,000

Saving Fundamentals
Harnessing the power of compounding can greatly impact the amount of savings over the long term.



A key takeaway here is Barney has invested 3 times as much as Alice, yet Alice's account has a higher value. She saved for just 10 years while Barney saved for 30 years. Seen here, compound interest is the process where all of the investment return that Alice earned in her 10 early years of saving is snowballing. The effect is so drastic that Barney can't catch up, even if he saves for an additional 20 years.

Of course, the best scenario here is Christopher, who begins saving early and never stops. Note how the amount he has saved is massively higher than either Alice or Barney. Is it so astounding that Christopher's savings have grown so large? Not necessarily – what is most remarkable is how simple his path to riches was. Slow and steady annual investments, and most importantly beginning at an early age. By gifting your child $5,000 to contribute to a Roth IRA during a few of their earliest working years, perhaps they can become devoted to the idea of letting their savings work for them.

The simple fact is that *when* you start saving outweighs how much you save.

Planning for Wealth Transfer

The Roth IRA can help families preserve and transferring wealth across generations. Because Roth IRAs do not have RMDs, these assets will not need to be systematically depleted before being passed on to heirs, increasing the benefit of tax-free growth. Gifting a contribution to a Roth IRA in a child's name presents a new avenue for planning, especially if parents' Roth IRA contributions are maxed (or

Contribute $5,500 to a child's Roth IRA vs. investing the assets in a taxable account owned by the parents. Here investing in the parents' name presents two downsides. First, the size of the estate could grow, subjecting the assets to estate tax when transferred. Second, when the child withdraws the funds after inheritance, they will be subject to capital gains tax (the child will receive a step-up in basis at inheritance).

Contribute $5,500 to a child's Roth IRA vs. investing the assets in a parent's Roth IRA. If wealth transfer is your only goal, contributing to the Roth IRA of a working child is a better option than contributing to your own Roth IRA. The reason is that while the original owner of a Roth IRA does not need to take RMDs, the beneficiary owner does. This means that when your child inherits your Roth IRA they will need to deplete the value of the inherited account during their lifetime. If you were to have invested an identical amount to a working child's Roth IRA, these assets can continue to grow tax free through the next generation.

Planning for Education

Roth IRAs can serve as an effective alternative (or supplement) to 529 savings plans. Roth IRA owners are allowed to take early withdrawals for payment of qualified higher education expenses without penalty. The exception eliminates the 10% early withdrawal penalty only, withdrawn earnings are still subject to income tax (withdrawn principal is tax-free). This rule makes it more effective to plan for education using a Roth IRA in a child's name (at a lower tax-bracket) than in the parents' name.

Roth IRAs benefit from the same primary advantage as 529 plans: tax-free growth of contributions. However, 529 plans stipulate inflexible investment options because investors must select from a limited pool of investment choices. The investment choices in a Roth IRA are practically unlimited. Roth IRAs are also excluded from Free Application for Federal Student Aid (FAFSA) whereas Section 529 plans are not. In the rare instance that you have saved too much for education, Roth IRA assets can grow tax-free long after education is paid for, while 529 plans can only

There is one considerable disadvantage to Roth IRAs vs. Section 529 Plans: the need to pay tax upfront on Roth IRA contributions (qualified Section 529 contributions are not taxed at investment nor withdrawal). However, gifted contributions to a working child's Roth IRA may avoid this tax. Because most children earn little income and are not subject to federal income tax, it is likely that any Roth IRA contributions can be made tax-free.

Consider giving your child the gift of a Roth IRA this holiday season. Sure it won't light up their eyes as much as the gift they really asked for, but it can introduce them to the concept of savings and investment – a gift that will unmistakably keep on giving.

By gifting your child $5,000 to contribute to a Roth IRA during a few of their earliest working years, perhaps they can become devoted to the idea of letting their savings work for them.

MEET THE TEAM: Brian Gillespie, Equity Analyst

Brian joined our firm in 2005 and is a member of the investment committee. He has more than ten years' experience in the investment industry. Brian is actively involved in idea generation for the firm's portfolios and contributes to the management of client accounts invested in the Blue Chip Portfolio. Prior to joining Windgate Wealth Management Brian worked for William Blair. He received his B.S. in Finance from Illinois State University in 1995 and his M.B.A. from Loyola University in Chicago in 2002.

Q. How has your career grown since joining Windgate Wealth Management?

The freedom and flexibility of working for a small firm like Windgate has propelled my career into more decision-making responsibilities. Previously I worked for much larger firms that had a more structured environment. The ability at Windgate to wear "many different hats" means there are always new challenges and opportunities. The camaraderie among the small number of employees promotes the sharing of investment ideas, often prompting spirited debates. This open dialog is key to ensure that we are constantly re-verifying our investment thesis and see a potential idea from all angles when seeking investment ideas for our clients.

Q. What is a blue chip stock?

Although we recommend our clients practice sound investing, not gambling, the term "Blue Chip" actually derives from poker. The standard set of poker chips include white, red, and blue chips, with blue chips traditionally being the highest in value. The term "Blue Chip" was adopted by the stock market to indicate the largest, most reliable companies. These "Blue Chip" names traditionally have the ability

(Continued on Page 11)

MEDICARE PLANNING OPPORTUNITY

Imagine that next January you wake up to realize that your Social Security Benefits have been reduced. Not a happy thought, but it is not an uncommon experience for many individuals. This situation is not related to Social Security Administration's solvency or its ability to pay benefits. What has occurred is that Medicare Part B Premiums – which are paid directly from your Social Security Benefits – have increased, leaving less net take home pay.

Medicare Part B Premiums increase for higher-income households, as seen in the chart below. These are cliff brackets, so if you are even $1 above a threshold in a given year you will pay the entire new level of premium. However, Medicare doesn't include several types of investment products as income, including HSAs and Roth IRAs. This means that there is a planning opportunity to manage income around the Medicare thresholds in the same manner that income is often planned around regarding traditional income-tax brackets.

Medicare BENEFITS

> Imagine that next January you wake up to realize that your Social Security Benefits have been reduced. What has occurred is that Medicare Part B Premiums - which are paid directly from your Social Security Benefits - have increased, leaving less net take home pay.

MEDICARE PREMIUMS TAX BRACKETS

INDIVIDUAL MAGI*	JOINT MAGI	PART B PREMIUM	PART D PREMIUM
<$85,000	<$170,000	$104.90	Your Plan Premium
Up to $107,000	Up to $214,000	+$42.00	+$12.10
Up to $160,000	Up to $320,000	+$104.90	+$31.10
Up to $214,000	Up to $428,000	+$167.80	+$50.20
>$214,000	>$428,000	+$230.80	+$69.30

*MAGI, Modified Adjusted Gross Income

If you have already enrolled in Medicare, as discussed in our last client newsletter, your next step could be additional planning. Have the above Medicare Premium brackets in mind whenever you have the ability to plan income such as IRA distributions, capital gains, or retirement plan contributions. For more information, speak with your tax advisor or give us a call.

Windgate Wealth Management is not a tax advisor and does not give specific tax advice. Check with you tax advisor before making any decisions.

IRS ANNOUNCES NEW CONTRIBUTION LIMITS FOR 2015

Good news for savers: the IRS has announced higher contribution levels and increased maximum income levels for retirement plans in 2015. Perhaps the most significant change for many of our clients is that investors aged 50 and older can now make "catch-up" contributions of $6,000 to their 401(k). Previously this amount was $5,500. Other key changes include:

- Clients may now put $18,000 (up from $17,500) into 401(k), 403(b) and most 457 plans, as well as the federal government's Thrift Savings Plan.

- The phase-out range on deductions for singles and heads of household who are contributing to traditional IRAs and are already covered by workplace retirement plans has changed. For singles, phase-outs begin at $61,000 and $71,000 (up from $60,000 to $70,000 last year); for married couples, phase-outs begin at $98,000 to $118,000 (up from $96,000 to $116,000).

- For Roth IRAs, the AGI phase-out range for singles and heads of household is $116,000 to $131,000 (up from $114,000 to $129,000). For married couples filing jointly the range is $183,000 to $193,000 (up from $181,000 to $191,000).

Remember that tax-deferral is a powerful tool. If you have any questions about how to take advantage of any of the above limits, give us a call.

Investors aged 50 and older can now make "catch-up" contributions of $6,000 to their 401(k)

MEET THE TEAM: Brian Gillespie, Equity Analyst (Continued from page 7)

to be profitable in both good times and bad. Think of companies like Johnson & Johnson or General Mills; these companies typically pay dividends and have a wide "moat" around their business, meaning that revenues are still strong even in poor economic times. Blue Chip companies typically won't provide the most exciting growth prospects, but they make up for it in consistency and resilience. Because of these qualities Blue Chip investing can be a great tool in a retirement portfolio, whether by investing in individual Blue Chip companies or gaining exposure to these firms via Mutual Funds and ETFs.

Q. What brought you to Chicago?

I came to Chicago just after graduating college in order to find work in the financial industry. In fact, I grew up in Decatur, IL and drove up to Chicago for a job interview and learned I had landed the job and was starting the next day. It was a quick move up to Chicago but I have lived here ever since. Living in downstate IL my family was always split between the Cubs and Cardinals. Since I had always followed the Cubs, Chicago already felt like something of a home when I moved here. My Cardinal-supporting family members seem to keep getting the last laugh, however… at least over the past 100 years.

CASE STUDY: WILLAMETTE VALLEY VINEYARDS, INC. (WWVI)

What does it mean to invest in small companies? Remember that you are invested in the growth of individual small businesses. The majority of these companies are led by true entrepreneurs – men and women – each with a story to tell about their business and their vision of reaching the next level. Analyzing these stories is a key element in our investment process. It can direct our focus toward companies where the opportunity ends up being the greatest.

When researching small companies, balance sheets, valuations, and economic trends all matter. But as bottom-up, fundamental investors, getting to know management teams is where the true opportunity of a company is often revealed. Our passion for our work in this asset class is fed by the access we are granted by small company management teams on a daily basis. If we were investing in Pepsico, or any other large-cap company, the CEO likely wouldn't even return our call. As shareholders in Willamette Valley Vineyards, CEO Jim Bernau didn't just pick up the phone, he invited us on a tour of his winery (supported by 526 owned and leased vineyard acres) outside of Portland, OR.

Below are highlights from conversations we've had with Jim which contributed to our analysis and decision to purchase the stock. The focus here is not on our story (examining analyst coverage, our nine-point evaluation or stock valuation) it is on Jim's story – the founding and ongoing success of Willamette Valley Vineyards. Jim's story is a fascinating one which we hope will help shed light on this personal, essential part of our investment process.

Fermentation: "I started selling wine out of the back of my car"

Windgate: By any stretch of the imagination, WVVI wasn't a traditional IPO listing. Tell us about your journey.

Jim: My vision was to organize wine enthusiasts as owners of a winery. So I started out with the goal of being publically traded. I started in 1987 with my application to the SEC and Blue Skied a number of states that were targeted for Pinot Noir enthusiasts. It was a very unusual model; I hadn't produced any wine before I started selling shares. But I had done some political fundraising when I was younger and used some of those marketing techniques to get people to order a prospectus. For example, I took the tombstone advertising requirements and converted them to things that looked like a wedding invitation. I wanted to identify what my affinity group was by taking my information out to wine festivals. So I hired a group of 5th graders to speak into tape recorders and record license plates of people who attended large wine festivals. Then I ran those plates through the Dept. of Motor Vehicles to identify the owners who I would then send invitations to order a prospectus. Maybe not surprising, I got a really high take rate on identifying those kinds of groups. Those are the offerings I did that funded the company. Soon I started selling wine out of the back of my car and even got some shareholders to help sell wine out of their cars, and it all worked.

The Barreling: "it took over 31 years to become an overnight success"

So, to beat your brain at its own game, keep these 10 biases in your head—or in your gut. Next time you fall into one of these traps, you can only blame yourself. Or you can convince yourself that you were right all along.

Windgate: To us, this past year appears to be an inflection point for your business.

Jim: It became very clear to me that to achieve world class status as an iconic Willamette Valley Vineyard Appalachian producer, I needed to have a very sharp focus on Pinot Noir. The Oregon wine industry is young in comparison to California or France. In 1966, there were only two commercial wineries licensed in the state. Today there are 545 and the industry has doubled in the last 10 years. Because of climate, soil and other growing conditions, Oregon has carved out this little niche of very high quality wine focused on Pinot Noir.

As of 10/31/14, The Perritt Ultra MicroCap Strategy held a 1.3% position in Willamette Valley Vineyards (VWI)

The Vision, Uncorked: "Come and be entertained"

About 50% of our production in sales is Pinot Noir and we have really carved out a very strong brand position for that variety. And we're growing: recently I acquired 80 acres right next to Elton Vineyards (a vineyard leased by Willamette Valley) where we're planting fifty-five acres this year after planting eighteen acres last year, and we have leased another 109 acres to plant.

As Oregon wineries have continued to populate and become known, this is a distinct advantage for us. There is a cacophony of brands in the valley now, but we're Willamette Valley Vineyards – we own the trademark. So as time goes on, our ability to stand out with this iconic brand improves as the reputation of the valley improves, as long as we continue doing our homework and making great wine.

We've had some designations from different reviewers. We've had one from Wine Enthusiast magazine called us one of the great wine producers. We had one from Wine & Spirits Magazine name us one of the top 100 wineries in the world. I would say the wines we're now releasing, the 2012 Pinot Noirs will likely be regarded as the best that the industry has ever made, and certainly the best we at Willamette Valley has ever made. We are just starting to get reviews on those, we just received 93 points from Wine & Spirits Magazine which is a high score. We've carved out a market niche where majority of our sales of Pinot Noir range from $22 to $30 a bottle. We're serving a national and international segment in the market that I will continue to hammer home on a long term basis. And there's not very many of us that compete in that segment. For example, we are a size where we can serve a national chain. If you go to Ruth Chris, our Pinot Noir and Riesling is on the wine list. That's just one example.

Windgate: You used retained earnings to make a sizable investment in the winery.

Jim: Consumers have changed what they want in recent years. It used to be tasting rooms were more primitive, people would come in and taste and move on. Now people want to come and be entertained. They want to have activities and different levels of experiences that are more positive and memorable. We made a significant investment in creating a world class winery destination experience here at the winery. We just had our grand opening in May and it's really working. We probably have one of the few wineries that has a chef and a chef station in the tasting room. We have hospitality lodging adjacent to the winery. And we've recruited top talent: Isabelle Meunier, the highest rated wine maker in making chardonnay from Oregon, has come on board. Drew Voigt, who used to be at Domaine Serene (another Oregon Winery) is also working with us.

I am always focused on what am I doing to increase the strategic value of the business. Making our winery a true destination is one element. Benefiting from our trademark and growth in the region is another. When I think about the decision making, I think about what would create the highest value to our shareholders. If you look at my vineyard strategy, we've got to be close to the largest Estate winemaker in Oregon. I developed an inventory of future vineyard land I'll be planting a number of years into future. That increases our strategic value because any acquirer would want to make sure they can grow the brand they purchased.

WVVI Fast Facts as of 9/30/14

Year Founded	1988
Market Cap	$26 Million
Revenue	$13 Million
# Analysts Covering	0
Key Wine	Pinot Noir/Pinot Gris
Labels	Willamette Valley, Tualatin Estate Vineyards, Griffin

Perritt Capital Management Staff and Board of Directors

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To Your Future Prosperity...