# YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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## In This Issue

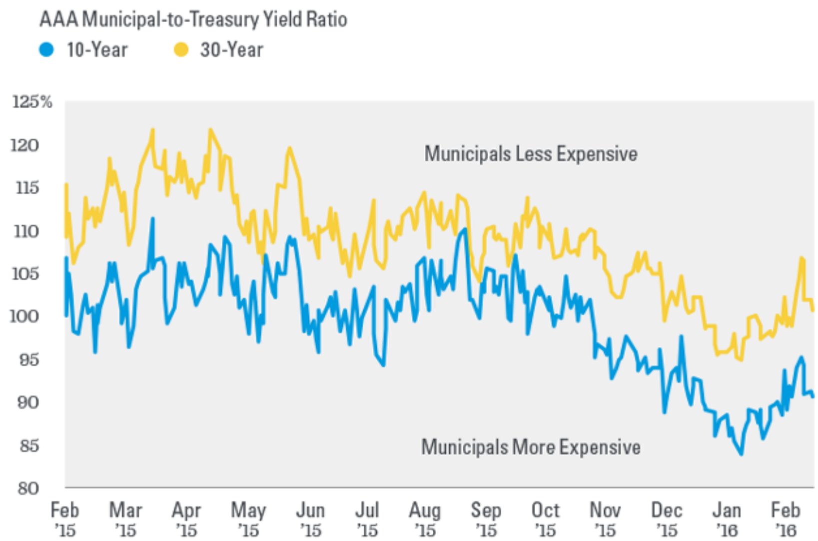
## KEY TAKEAWAYS

- Municipal bonds have started 2016 on a strong note, despite lagging Treasuries.
- High-yield municipal bonds have managed to avoid the problems of the taxable high-yield bond market as the two remain structurally different.
- Although municipal valuations have become more attractive, historically low yields and a challenging seasonal period augur for a slowdown.

## MUNICIPAL CHECK-IN

Municipal bonds have failed to keep pace with Treasury strength so far in 2016, but performance has been robust. The Barclays Municipal Index has returned 1.6% year to date (as of February 18, 2016) versus 3.1% for the Barclays Treasury Index. A performance gap is often typical during periods of falling rates in response to market stress as investors flock to top-quality U.S. Treasuries, but municipal bonds still benefited from high-quality bond strength. In response, municipal valuations relative to Treasuries cheapened, as indicated by average AAA municipal-to-Treasury yield ratios [Figure 1].

1 MUNICIPAL BOND VALUATIONS HAVE CHEAPENED SO FAR IN 2016




Source: LPL Research, Municipal Market Advisors, Bloomberg 02/19/16

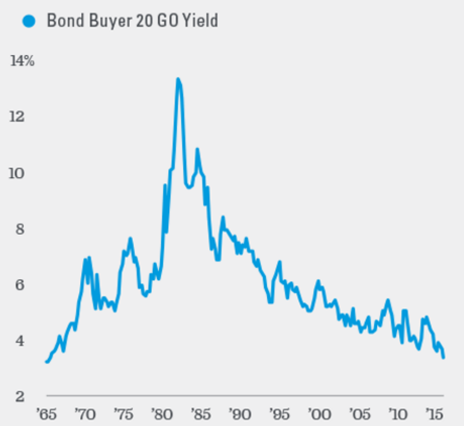
Past performance is no guarantee of future results.

Yield ratio is a comparison of the expected yield of one bond to the expected yield of another. The yield ratio of municipal bonds to U.S. Treasuries is a common barometer of municipal bond valuations.

### MATCHING A RECORD LOW

Although valuations are more attractive now, municipal yields are at or near 50-year lows [Figure 2], according to the Bond Buyer 20 Index of general obligation (GO) bonds. Looking strictly at top-rated AAA GO yields, average 10- and 30-year yields are 1.8% and 2.8%, respectively, below the 2% and 3% levels that have often worked to restrain demand in the past. Investors may once again find the lower yields unappealing and demand may soften. Lower yields also provide less of a buffer if interest rates turn higher, even if the prospect of higher rates is reduced due to recent market volatility and increasing expectations that the Federal Reserve (Fed) will take a slower approach to raising interest rates than recently forecast by the Fed in December 2015.

2 MUNICIPAL YIELDS ARE AT 50-YEAR LOWS




Source: LPL Research, Bond Buyer 20 GO Index 02/19/16

Past performance is no guarantee of future results.

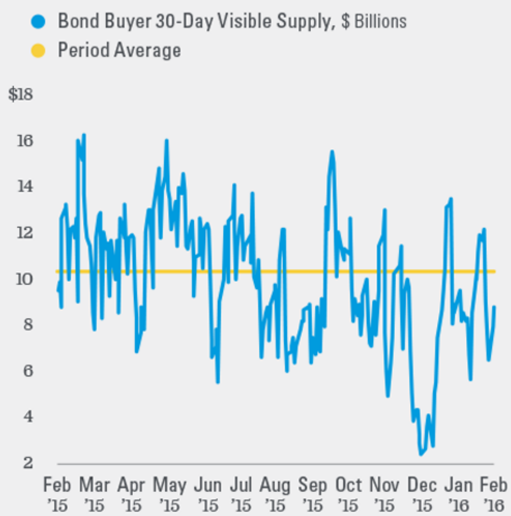
General obligation (GO) bonds are municipal bonds backed by the credit and "taxing power" of the issuing jurisdiction, rather than the revenue from a given project.

The drop of the 10-year yield to start 2016 (down 0.6% over the first six weeks of 2016) indicates that additional high-quality price gains may be hard to achieve, absent severe additional market stress. Treasuries finished last week (February 15-19, 2016) broadly unchanged. Yields may not revert higher soon, however, as our analysis shows that periods of extreme Treasury gains, like the one experienced recently, do not necessarily reverse over the short term (see our *Bond Market Perspectives*, "How Extreme It Is").

**SUPPLY**

Supply suggests any weakness may be limited. New issuance has been modest for most of 2016; and although supply for the week of February 22, 2016, is expected to be a more average level of $8 billion, the 30-day projected volume remains relatively modest at approximately $9 billion [Figure 3]. Compared with the past year, the forward calendar looks relatively modest.

3 NEW ISSUE SUPPLY REMAINS MODEST COMPARED TO THE PAST YEAR



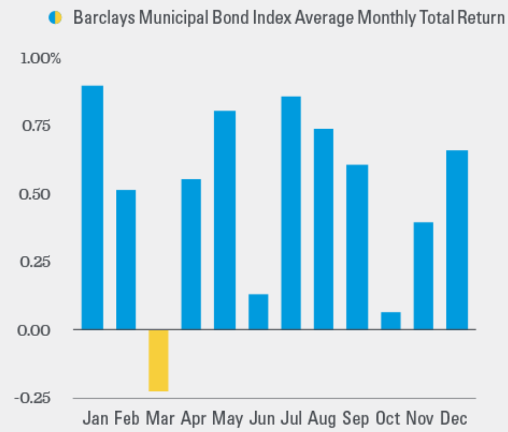

Source: LPL Research, *The Bond Buyer* 02/19/16

Past performance is no guarantee of future results.

Low yields may bring in more sellers, which could increase secondary market supply, as opposed to the new issue market, and offset low new issue supply. This could pose an additional challenge; but with overall demand for tax-exempt interest income high, secondary supply would have to increase rapidly, which we view as unlikely given lingering investor concerns.

March has historically been a difficult month for the municipal market. A difficult seasonal period for bonds overall and tax-related selling ahead of the April 15 tax deadline are the two primary reasons. In fact, March is the only month in which the Barclays Municipal Bond Index has averaged a negative return since 1990 [Figure 4]. Given the difficult stock market environment in 2015, capital gains-related selling may be more muted than past years and mitigate the potential threat to the municipal bond market.

4 MARCH HAS HISTORICALLY BEEN A CHALLENGING MONTH



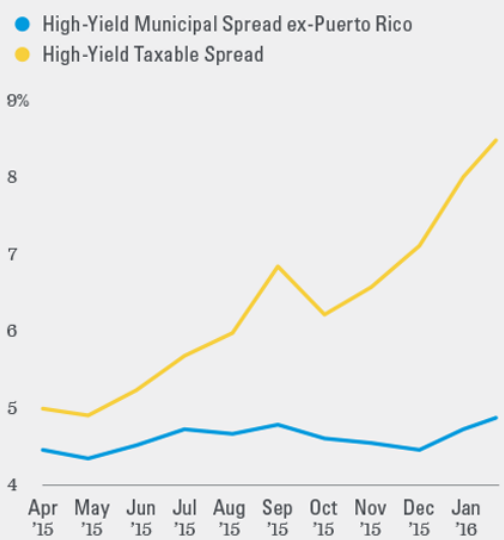

Source: LPL Research, Barclays Municipal Bond Index 02/19/16

Past performance is no guarantee of future results.

## TAX-FREE VERSUS TAXABLE HIGH-YIELD

Municipal high-yield, though similar in name, has managed to avoid the turbulence of the taxable high-yield corporate bond market. The average yield advantage of municipal high-yield bonds to the AAA national average municipal bond yield has increased since the middle of 2015, when high-yield taxable concerns began to grow. However, it only increased by roughly 0.5% according to the Barclays High Yield Municipal Index, compared with a greater than 3% rise in the taxable high-yield bond market, as measured by the Barclays High Yield Index average yield advantage to the five-year Treasury yield [Figure 5].

5 A TALE OF TWO HIGH-YIELD MARKETS




Source: LPL Research, Barclays High Yield Municipal Index, Barclays High Yield Index 02/19/16

Past performance is no guarantee of future results.

High-yield spread is the yield differential between the average yield of high-yield bonds and the average yield of comparable maturity Treasury bonds.

The resilience of the municipal high-yield market speaks to its inherently better credit quality. The default rate on below-investment-grade municipal bonds has historically averaged 20% of taxable high-yield bonds.* Municipal high-yield bonds do not have the energy-related exposure that has plagued the taxable high-yield bond market. Aside from Puerto Rico and isolated problem issuers, the municipal market continues to benefit from an expanding economy and gradual improvement in the financial health of state and local governments. Through the first six weeks of 2016, the number of municipal defaults is running roughly half of the already low 2014 and 2015 levels,** a sharp contrast to rising defaults in the taxable high-yield market.

**CONCLUSION**

Recent Treasury strength, prompted by a flight to safety at the beginning of 2016, has left municipal bonds looking attractive on a relative basis. However, yields are at or near long-term lows and a challenging time of year may limit additional capital appreciation. Municipal strength is therefore likely to slow. Limited supply, lingering economic uncertainty, and a Fed that seems to be taking a more gradual pace of interest rate hikes suggest near-term weakness, if any, may be limited.

*According to Moody's Long-Term Default Study.

**According to Municipal Securities Rulemaking Board (MSRB) filing and Municipal Market Advisors (MMA) data.

*IMPORTANT DISCLOSURES*
*The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly.*

*The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.*

*Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.*

*The credit ratings are published rankings based on detailed financial analyses by a credit bureau specifically as it relates the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade.*

*High-yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.*

*Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.*

*Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.*

*Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.*

*INDEX DEFINITIONS*
*The Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.*

*The Barclays Municipal High Yield Bond Index is comprised of bonds with maturities greater than one-year, having a par value of at least $3 million issued as part of a transaction size greater than $20 million, and rated no higher than 'BB+' or equivalent by any of the three principal rating agencies.*

*The Barclays U.S. Treasury Index is an unmanaged index of public debt obligations of the U.S. Treasury with a remaining maturity of one year or more. The index does not include T-bills (due to the maturity constraint), zero coupon bonds (strips), or Treasury Inflation-Protected Securities (TIPS).*

*The Barclays U.S. Corporate High Yield Index measures the market of USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.*

*The Bond Buyer 20 Index is a representation of municipal bond trends based on a portfolio of 20 general obligation bonds that mature in 20 years. The index is based on a survey of municipal bond traders rather than actual prices or yields. It is published by The Bond Buyer, a daily financial publication.*

*This research material has been prepared by LPL Financial.*

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*Tracking #1-470981 (Exp. 02/17)*

# Focus on the Forest, Not the Trees, of Investing

**"Chasing returns" by moving your money into whatever investment type or stock market sector happens to be doing well at the time rarely pays off in the long run.**

It's a message worth repeating. Investing is a matter of focus. Despite recent disappointments in stock market performance, investors who are willing to assess the whole universe of investment choices may find that the market continues to offer new possibilities. And those who keep their sights set on long-term investment goals may find that a "forest, not trees" approach to investing offers the greatest potential for success.

Focus is especially important for retirement savers -- those who are still in the accumulation stage -- as well as for retirees who need to keep the potential for growth alive in their portfolios.

## Are You a Micromanager?

As a retirement saver, your employer-sponsored retirement plan gives you the freedom to make your own investment decisions. And because you can easily change plan investments, you may find yourself becoming a micromanager. That's an investor who changes investments frequently because of daily market movements instead of focusing on the big picture -- a long-term investment strategy. But "chasing returns" by moving your money into whatever investment type or stock market sector happens to be doing well *at the time* rarely pays off in the long run.

## The Unknowable Future

The problem with chasing returns is that it's virtually impossible to predict how long a particular investment or market sector will continue to be a top performer. Eventually, another investment or sector will probably take over the lead, and there will be little or no advance warning. That can leave you in the lurch if you changed the investment mix of your retirement plan account based strictly on recent performance.

## The Solution: Keep a Long-term Perspective

You may be much better off by the time you retire if you use a "forest, not trees" perspective when you invest. Concentrate on your goal, and choose an investment mix with the potential to help you reach that goal over time.

Your retirement plan offers several investment options, allowing you to choose a well-diversified investment mix for your account. The idea behind long-term investing is to choose a mix that offers you a realistic opportunity to achieve gains while reducing the overall risk to a level you are comfortable with.

After you've chosen your investments, you shouldn't ignore market and economic developments. But you'll generally want to stay with your plan unless you decide that changes in your personal situation or risk tolerance make an adjustment necessary.

If you're a "forest, not trees" investor, you can be much less concerned with what the markets do on a day-to-day basis. You'll be free to switch your investments, but you won't feel compelled to make a move every time the markets zig or zag.



1-452832

## Planning 2016: New Realities, New Expectations

**The key to pursuing longer-term financial goals, such as retirement and education funding, is to have a well-thought-out plan that assigns actual dollar amounts to each goal -- and a timetable for getting there.**

Financial resolutions often fall prey to the same procrastination that hinders personal aspirations. Yet current volatility in the financial markets along with other unsettling factors such as the impending presidential election and widespread geopolitical unrest may have led investors to pause, rethink their financial situations, and set new expectations for the future.

Resolutions typically fall into one of three financial "life stages" -- accumulation, preservation, or transfer of wealth. In order to establish action plans for these phases, you need to examine opportunities, identify challenges, and add a dose of reality to your planning efforts.

### Accumulating Assets

The key to pursuing longer-term financial goals, such as retirement and education funding, is to have a well-thought-out plan that assigns actual dollar amounts to each goal -- and a timetable for getting there. On this score, many investors are falling well short of the mark.

For instance, research compiled by the Employee Benefit Research Institute (EBRI) indicates that a sizeable percentage of workers say they have virtually no money in savings and investments.[1] Specifically, among workers who provided this type of information, 57% reported that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000. This includes 28% who say they have less than $1,000 in savings.[1]

If you find yourself behind in your accumulation efforts for major life expenses, such as retirement, don't despair. There are many opportunities to jump-start your savings campaign.

- Make the most of employer-sponsored plans. For participants in 401(k)s, 403(b)s, and 457 plans, the contribution limit stands at $18,000 for 2016 with an additional $6,000 in catch-up contributions allowed for those who are 50 or older.
- Maximize IRA contributions. In 2016, you can contribute up to $5,500 to a traditional or Roth IRA (or split that amount between the two types of accounts). Add another $1,000 to that total if you are making catch-up contributions.

Don't let procrastination get the better of your best-laid plans. Make 2016 the year you get serious about saving.

### Preserving Assets

Holding on to your assets requires a disciplined, long-term view. Most people plan for a retirement to span 25-plus years, but evaluate their portfolios' performance over the last quarter. Particularly in volatile market environments, investors tend to move in and out of positions too quickly, potentially causing them to sell low, buy high, and abandon asset allocation fundamentals.[2]

Short-term declines are inevitable and may tempt the most grounded investor to make impulsive investment choices. That is why maintaining an investment policy statement that reflects your long-term horizon is essential. Such a statement should reflect your current investment expectations as well as address the tax consequences of your portfolio.

For instance, many investors tend to hold on to a stock because of a low basis without evaluating what it may be costing them in missed opportunities (i.e., building a more diversified portfolio). Alternatively, investors need to be mindful of the tax cost associated with buying and selling securities. Tax efficiency is important in asset preservation, so speak to your tax advisor now about your 2016 strategy, particularly if you plan to rebalance your portfolio.

### Transferring Assets

To leave the legacy that you envision requires significant advance planning. Questions regarding how much you want to leave to loved ones, how long your bequest will last, and how much will be eroded by taxes are difficult to address. But planning converts uncertainty into real opportunities to make a difference.

When crafting your estate plan, be sure that documents are written to be flexible and easily adapted to changing circumstances. For instance, if balances on investment accounts decline, you may need to rethink -- and restate -- your intentions, perhaps even change beneficiary designations to reflect changing market dynamics.

When faced with these and other important financial planning considerations, a trusted advisor can be an invaluable resource. Working together, you can address new realities by setting practical expectations and crafting a plan for success in 2016.

*[1]Employee Benefit Research Institute, 2015 Retirement Confidence Survey, April 2015.[2]Asset allocation does not assure a profit or protect against a loss.*



1-463717

## How Much Will That Little Bundle of Joy Cost You? Try $245,340

**The average total child-rearing costs for a child born in 2013 and living at home through age 17 range from $176,550 to $407,820, depending on the family's income level.**

It certainly comes as no surprise to parents that raising a child can be expensive. But just how expensive? While many financial studies focus solely on college costs, research by the U.S. Department of Agriculture (USDA) provides parents and prospective parents with a general idea of the cumulative expenses for a child *before* college kicks in.

The results are sobering. The average total child-rearing costs for a child born in 2013 and living at home through age 17 is now $245,340 (in 2013 dollars). The USDA calculations include a wide variety of expenses, including housing, child care and education, health care, clothing, transportation, food, personal care, and entertainment.

### Estimated Cumulative Child-Rearing Expenditures, 2013-2030

| | |
|---|---|
| Lowest Income Group (<$61,530) | $176,550 |
| Middle Income Group (between $61,530 and $106,540) | $245,340 |
| Highest Income Group (>$106,540) | $407,820 |

Source: USDA, News Release No. 0179.14, August 18, 2014.

Two-parent households in the lowest income group (those earning under $61,530 per year) are estimated to spend between $9,130 to $10,400 per year on average; those in the medium income group (earning between $61,530 and $106,540) can expect to spend between $12,800 and $14,970 per year; and those in the highest income group (with incomes above $106,540) can expect to spend between $21,330 and $25,700 on average.

For a middle-income family with two children, the largest expenditures are:

- Housing, at an average of 30% of total expenses
- Child care/education, 18%
- Food, 16%
- Transportation, 14%
- Health care, 8%

Not surprisingly, geography matters. Parents in the "Urban Northeast" had the highest average expenses, while those in "Rural" areas had the lowest. It also should come as no surprise to parents that it is generally more expensive to raise a child today than it was when they were children.

The USDA website has a free calculator that can help parents estimate their child care costs. The Cost of Raising a Child Calculator factors in geography, single or two-parent status, and the costs of additional children.

*Source: Lino, Mark. Expenditures on Children by Families, 2013, United States Department of Agriculture, Center for Nutrition Policy and Promotion. Miscellaneous Publication No. 1528-2013. August 2014.*



Tracking #1-029019

## Budget Deal Curbs Social Security Claiming Options

**Note that there is a four-month window in which these strategies will still be in effect in their current iterations.**

On Monday, November 2, President Obama signed into law H.R. 1314, the "Bipartisan Budget Act of 2015." One significant byproduct of the legislation is the elimination and/or curbing of two Social Security filing strategies that two-income married couples may have been using -- or counting on -- to increase their lifetime Social Security payouts. The two programs, referred to in the bill as "unintended loopholes," generally involve one of the following strategies: file and suspend and restricted application for spousal benefits. As with most things related to federal programs, there's complexity in the details.

Here are a few key points of explanation about the strategies and how the new law will change and/or eliminate them, along with some takeaways you may want to discuss with your advisor.

### What's at Stake?

Very generally, the strategies in question allowed both spouses who had reached full retirement age (currently 66 for most claimants) to delay claiming benefits on their own earnings records -- and, thus, increase their individual annual payouts -- while, depending on the tactic used, also allowing one spouse to claim a so-called spousal benefit based on the other's earnings.

Under file and suspend, for instance, typically the higher earning spouse would start receiving Social Security payments and then suspend them, allowing the lower earning spouse to claim spousal benefits. Under restricted application for spousal benefits, typically the higher earning spouse would delay filing for his or her own benefit but claim the spousal benefit on the lower earning spouse's benefit.

In both scenarios, the end game for couples was to delay receiving benefits, perhaps until as late as age 70, and thereby increase Social Security payments by 6% to 8% per year -- potentially adding thousands of dollars more in income over their lifetimes.

### What's Changing?

While dual-earner couples will still be able to suspend their payments and start up again at a higher rate no later than age 70, under the new rules they generally can no longer "double dip" -- that is, first collect one type of payment (i.e., spousal benefits) and then switch to payments based on their own earnings record, which would have grown due to delayed retirement credits. Similarly, in most cases, if you suspend payments, the new law will prohibit spouses or other dependents from claiming Social Security benefits on your work record until you resume payments again.[1]

### Windows of Opportunity

Note that there is a four-month window in which these strategies will still be in effect in their current iterations. So if you are 66 now, or will turn 66 within the next four months, you may want to speak with your advisor about taking advantage of these claiming options before you lose the option to do so.

Also keep in mind that your age plays a key role in how the new rules may impact you. For instance, individuals who will be 62 or older as of December 31, 2015, may still be able to take advantage of some of these strategies once they reach full retirement age.[2]

In addition, those who are already employing these strategies are generally "grandfathered," and their benefits will not be eliminated or changed by the new laws. Similarly, widows and widowers generally won't be affected, while divorced persons and same-sex married couples may be among the groups most adversely affected by the changes.

While determining when and how to claim Social Security benefits has always been a challenging task, these new rules create even more complexity for those nearing retirement. If you need help navigating the changing Social Security landscape, speak with your financial advisor.

[1]*U.S. News & World Report, "How the Budget Deal Changes Social Security," November 13, 2015.*

[2]*MarketWatch*, "Millions of Americans just lost a key Social Security strategy," November 7, 2015.



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