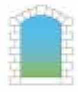

YOUR FINANCIAL FUTURE

Your Guide to Life Planning

August 2016

Glenn Fischer and Lawrence Vick, Certified Financial Planner
Clear Financial Group
1601 Sherman Avenue
Unit #405
Evanston, IL 60201
glenn.fischer@lpl.com
lawrence.vick@lpl.com
http://clearfinancialgroup.com

In This Issue

Bond Market Perspectives | Week of August 1, 2016

High-yields rally during July was a continuation of the strength that began in mid-February, but with one important difference: the market has continued to rally recently despite oil price weakness.

Obstacles to Avoid on the Road to Investment Growth

Most long-term financial goals require you to maintain a long-term investment outlook. Don't let your goals be sidetracked by these potential obstacles.

The IRS Clarifies Rules on Rollovers of Retirement Plan Monies

After years of ambiguity, the IRS has ruled definitively that plan participants can roll after-tax contributions into a Roth IRA tax free.

10 Things You May Not Know About an LLC

Have you ever wondered what type of structure an LLC represents -- and how one is governed? Here are a few highlights for you to consider.

The Numbers Game: Finding the Right Accountant for Your Business

Here are some practical tips for finding the right accountant for your business.

Highlights

- High-yield has continued to rally recently despite weaker oil prices.
- Investors can still potentially benefit from a small allocation due to the asset class's notable yield in a low-yield environment.
- Caution remains warranted, as oil may again drive the market.

High-Yield Rally Continues Despite Headwinds

High-yield's rally during July was a continuation of the strength that began in mid-February, but with one important difference: the market has continued to rally recently despite oil price weakness. High-yield returned 2.7% in July, bringing the asset class's year-to-date total return to an impressive 12.0% (based on the Barclays U.S. High Yield Index).

Notable Performance

The continued rally of high-yield, especially relative to the Barclays Aggregate, has been noteworthy. Since the high-yield market's recent bottom on February 11, 2016, the high-yield market has outperformed the Aggregate by more than 13% over the 24-week period (through July 29, 2016). This is the largest outperformance during the last 10 years, outside of the recovery from the Great Recession [Figure 1].

Oil Still the Dominant Driver

High-yield's rally has continued as the market has shown resilience despite weaker oil prices [Figure 2].

Click here for Figure 2, High-Yield's Performance Has Recently Decoupled from Oil After Tracking Tightly

Although the decoupling is notable, we still believe that oil will be the primary driver of high-yield strength or weakness in the near future, and sufficient caution should be exercised. Price action on August 1, 2016, confirmed that this relationship is still strong; oil's 3.7% decline to $40 per barrel led to a -0.6% return for the high-yield market.

The Worst May Be Over

Based on our research, current yield spreads imply a forward one-year default rate of 4.3% for the overall high-yield market, 7.3% for the high-yield energy sector, and 3.8% for high-yield excluding the energy sector. Markets are forward looking, and while defaults have increased-and may continue to increase over the short term-markets are indicating an expectation for them to slow over the next year. In fact, this has already been the case, as these implied default figures have come down over the month of July (the market-implied default rate for high-yield overall was 5.0% at the end of June).

On a lookback basis, Moody's default rate for high-yield recently notched up slightly to 4.5% as of June 30, 2016, up from 4% as of March 31, 2016. A deceleration in the rise of the default rate in future readings would also indicate that the bulk of defaults have already transpired. We believe spreads at their current levels are roughly fair, bordering on slightly expensive, but provide little room for error if defaults continue to rise. The high-yield market, however, is suggesting that the worst may be behind us.

Scenario Analysis

Despite the recent decoupling, we believe high-yield's performance over the near term remains largely dependent on the price of oil. As oil settled at $40 per barrel on August 1, 2016, the move from here may indicate where the high-yield market is headed over the short term. A material move downward into the low to mid-$30s, with prices sustained at those levels, may prompt weakness in high-yield. That being said, another rally of oil into the upper $40s may propel high-yield further still. Direction aside, a single variable being such a powerful potential driver of returns creates an added risk for high-yield investors.

Nevertheless, we remain in a low-yield world, in which many segments of the bond market are at or near historically high valuations, and we believe a small allocation to high-yield bonds can potentially add value. In a range-bound interest rate backdrop, interest income can be a powerful driver of return. Scenario analysis can help gauge potential return prospects for high-yield bonds [Figure 3].

3 HIGH-YIELD TOTAL RETURN SCENARIO ANALYSIS: ONE-YEAR TIME HORIZON

		Interest Rate Shift			
		-0.25%	0.0%	0.5%	1.0%
Spread Change	1.0%	3.5%	2.5%	0.4%	-1.6%
	0.5%	5.6%	4.5%	2.5%	0.4%
	0.0%	7.6%	6.6%	4.5%	2.5%
	-0.5%	9.7%	8.6%	6.6%	4.5%

Source: LPL Research, Barclays High Yield Index 08/01/16

Hypothetical returns assume no reinvestment of interest income, a one-year time horizon, and parallel shift of the yield curve.

This hypothetical example is not representative of any specific situation. Actual results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

Figure 3 indicates that the one-year total return for the Barclays U.S. High Yield Index, assuming no change in spreads and a 0.5% increase in interest rates, is 4.5%, a decent reading in our current low-yield/low-return environment. Comparisons to the broader bond market can also be helpful: a 0.5% increase in interest rates could result in a 0.4% one-year total return for the Barclays U.S. Aggregate Index.

Conclusion

The high-yield market has continued to rally, despite the fact that oil has weakened as of late, resulting in the first meaningful decoupling of the recent past. Although this decoupling has been positive for the high-yield market, we believe oil remains its key risk driver. Still, investors may potentially benefit from a small allocation due to the asset class's notable yield in a low-yield environment. Caution remains warranted, however, as oil may again drive the market.

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.

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.

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.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

INDEX DESCRIPTIONS

The Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

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 Barclays U.S. Corporate High Yield Energy Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

RES 5602 0816 | Tracking #1-522022

Obstacles to Avoid on the Road to Investment Growth

By investing in a well-thought-out mix of investments, you'll give yourself an opportunity to take advantage of whichever asset type happens to be thriving at a particular time.

You're in the driver's seat when it comes to choosing investments for your retirement savings. Make too many wrong turns, however, and you may not achieve your long-range financial goals. Here are some common roadblocks to avoid.

The Poor-Diversification Block

You're free to choose from the range of investment options your plan offers, but concentrating too much of your retirement money in one investment type may not be wise. Some investments do much better than others -- at times no one can predict. By investing in a well-thought-out mix of investments, you'll give yourself an opportunity to take advantage of whichever asset type happens to be thriving at a particular time.

Choosing a mix of different investments (diversification) is also a proven strategy for managing investment risk.[1] When one type of investment is down, another may be up or holding steady, adding stability to the overall value of your account.

When planning your investment mix, remember the differences in growth potential of the various asset classes. For instance, the historical returns of investments such as money market funds are often close to the rate of inflation and may be too low to deliver the long-term growth you need.[2] On the other hand, if you have a heavy concentration of potentially high-earning stocks and the market performs poorly, you risk losing a lot of the value of your account, at least temporarily.[3]

The Quick-Escape Block

Expect the stock market to decline at times. It's inevitable -- only the timing is uncertain. When stock prices drop, don't automatically veer off course by moving your stock investments to bonds or another asset class that may be doing better at the time.[4] Instead, it may be prudent to "stay the course" so that you'll be in a better position to benefit from potential future growth down the road.

The Spend-the-Future Block

If you change jobs, you'll have the option of cashing out your retirement account. You may be tempted to take the money and spend it, especially if the amount isn't very large. But, if you spend your retirement money, making up for it later may be very difficult.

The chart below shows just how costly spending a retirement nest egg can be. A much better strategy: Roll over your retirement money into an individual retirement account (IRA), into your new employer's tax-deferred retirement plan, if allowed, or leave it in your current plan, if allowed. You'll likely still be able to choose how your retirement money is invested. And you'll keep it working for you until you're certainly going to need it -- after you retire.

The "Cost" of Withdrawing $25,000

	Retirement Account Balance at Age 30	Amount Withdrawn at Age 30 When Changing Jobs	Balance at Age 65
Employee A	$25,000	$0	$512,786
Employee B	$25,000	$25,000	$225,132
		Cost of Early Withdrawal	**$287,654**

Assumes: $125 monthly contributions and 7% average annual investment returns between ages 30 and age 65. Withdrawals are subject to income taxes at then-current rates and a possible 10% additional federal tax if withdrawn prior to age 59½. The chart does not reflect these costs. This is a hypothetical example. Your investment return and contributions will vary.

Source: DST Systems, Inc.

[1]*There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not assure against market risk.*

[2]*An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or*

any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

[3]*Investing in stocks involves risks, including loss of principal.*

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

© 2018 DST Systems Inc. All rights reserved.

1-501503

For those participants who are not currently making after-tax contributions, advisors may want to encourage them to do so, if their employer plan allows.

The IRS Clarifies Rules on Rollovers of Retirement Plan Monies

After years of ambiguity around what is and is not allowed regarding the disbursement of after-tax contributions to an employer-sponsored retirement plan, the IRS ruled in September of 2014 that plan participants can roll those dollars into a Roth IRA tax free.

IRS Notice 2014-54, Guidance on Allocation of After-Tax Amounts to Rollovers, "provides rules for allocating pretax and after-tax amounts among disbursements that are made to multiple destinations from a qualified plan."[1] Importantly, the Notice states that all disbursements from a retirement plan made at the same time will be treated as a single distribution even if they are sent to multiple new accounts. Prior to this ruling, the IRS treated distributions from a retirement plan that were rolled over to multiple new accounts as separate distributions, each requiring that a proportional share of pretax and after-tax monies be disbursed.[2]

A Simplified Process

Now individuals holding both pretax and after-tax amounts in their plan can transfer -- through direct, trustee-to-trustee rollovers -- the pretax portion of the distribution (including earnings on after-tax amounts) to a traditional IRA and the after-tax portion of the distribution to a Roth IRA. In the past, this could only be accomplished through indirect 60-day rollovers, not through simplified direct rollovers.[2]

More Clarification, Please

As with many IRS rulings, Notice 2014-54 raised many questions with taxpayers. In response, the IRS recently issued some answers to those commonly asked.

Q: If I have both pretax and after-tax monies in my retirement account, can I roll over just the after-tax monies to a Roth IRA, leaving all of the pretax monies intact?

A: No, the new rule does not change the requirement that each distribution from a plan -- including partial distributions -- must include a "proportional share" of the pretax and after-tax amounts.

Example: If your account balance is $100,000 and consists of $80,000 in pretax amounts and $20,000 in after-tax amounts, and you request a distribution of $50,000, your distribution would consist of $40,000 of pretax amounts and $10,000 of after-tax amounts.[2]

In order to roll over all of your after-tax contributions to a Roth IRA, you could take a full distribution (all pretax and after-tax amounts), roll over all the pretax amounts directly to a traditional IRA or another eligible retirement plan, and roll over all the after-tax amounts directly to a Roth IRA.

Q: Can I roll over my after-tax contributions to a Roth IRA and the earnings on my after-tax contributions to a traditional IRA?

Yes, since earnings on after-tax contributions are considered pretax monies, after-tax contributions can be rolled over to a Roth IRA while the earnings on those contributions can be directed to a separate traditional IRA and avoid being taxed until they are distributed.

Plan Sponsors: A New Opportunity

The new guidelines present an opportunity for plan sponsors to reach out to participants to determine which individuals have after-tax money in their plans and explain the new rules -- and the new opportunity -- to them. Further, for those participants who are not currently making after-tax contributions, advisors may want to encourage them to do so, if their employer plan allows.

With the current annual pretax contribution limit of $18,000 -- or $24,000 for individuals age 50 or older -- high-earning employees who are not making after-tax contributions are missing out on the chance to sock away significantly more (the annual total contribution cap on defined contribution plans is $53,000 in 2015) while benefitting from tax-deferred investment growth.

[1]*The Internal Revenue Service, Notice 2014-54, Guidance on Allocation of After-Tax Amounts to Rollovers, September 18, 2014.*

[2]The Internal Revenue Service, *Employee Plans News*, December 23, 2014.

© 2018 DST Systems Inc. All rights reserved.

1-360690

10 Things You May Not Know About an LLC

Upon formation of an LLC, the members contribute cash, property, or services to the LLC in exchange for LLC shares or units.

You probably know of several businesses whose formal names end with the acronym LLC. And you probably also know that LLC stands for limited liability company. Here are 10 things you may *not* know about this type of business structure.

1. An LLC generally protects its owners from personal liability for business obligations in much the same way a corporation does, but an LLC is not a corporate entity.[1]
2. An LLC that plans to conduct business in a state other than the one in which it was established may have to register and/or qualify to do business in that state, depending on the particulars of the situation.
3. The owners of an LLC are called "members." There is no limit on the number of members an LLC can have, and members don't necessarily have to be individuals. Members' management roles are typically spelled out in an operating agreement.
4. Upon formation of an LLC, the members contribute cash, property, or services to the LLC in exchange for LLC shares or units.
5. An LLC may borrow money in its own name and is responsible for repayment of the debt.
6. An LLC is usually treated as a partnership for federal income-tax purposes. (The remaining four points assume partnership treatment.)
7. Like partners, LLC members are not considered employees of the company. However, an LLC can have non-member employees.
8. LLC members are taxed directly on company income. The LLC itself doesn't pay federal income taxes.
9. If an LLC has a loss, its members generally can deduct their share of the loss on their own tax returns.
10. For tax purposes, an LLC's income and losses are divided among its members according to the terms of their agreement. Tax allocations must correspond to economic allocations of profit and loss.

An LLC is but one structure you might consider using for a business venture. If you have yet to choose a structure for your business, or if you feel your business may benefit from a new structure, make sure you talk the issues through with an attorney who is well versed in the legal aspects of business formation, as well as an accountant who understands the potential tax implications.

This communication is not intended to be tax advice and should not be treated as such. Each individual's -- and business's -- tax situation is different. You should contact your tax professional to discuss your individual situation.

[1] *Each state has its own laws governing LLCs. Consult with an attorney before establishing an LLC.*

© 2018 DST Systems Inc. All rights reserved.

1-501495

The Numbers Game: Finding the Right Accountant for Your Business

Certified public accountants are generally considered the most qualified because they have passed comprehensive exams and are publicly licensed by a professional board of peers.

Whether you are breaking ground on a new venture, buying an existing business, or rethinking your current business goals, one of the most important resources you can have is a first-rate accountant to handle your accounting, financial, and tax needs. Following are some practical guidelines for picking the best accountant for your business.

Consider a CPA

Certified public accountants are generally considered the most qualified of the profession because they have passed comprehensive exams and are publicly licensed by a professional board of peers. Check to see that the individuals you are evaluating are members of a prominent professional organization, such as the American Institute of Certified Public Accountants (AICPA), or the Institute of Management Accountants (IMA). While these organizations typically do not provide referrals, many state and local professional organizations have their own referral services. Do an online search for your state's Board of Accountancy website or check the government pages of your phone directory. Contact information can also be obtained from the AICPA.

Look for Previous Experience With Small Businesses

The accounting, financial, and operational needs of a smaller business differ drastically from those of a large company, and the individual you choose should be familiar with what it takes to get and keep a smaller business running smoothly. It also helps if the candidate has experience in your industry or particular type of business. Consider your own growth objectives when shopping around for an accountant. What you'll look for in an accountant will vary depending on your vision for the future.

Seek Personal Recommendations

Personal referrals can be a great way to identify potential candidates. Ask your banker, lawyer, and other business associates for their input. Determine on what basis a person is being recommended -- for example, integrity, competence, and small-business or industry experience. Seek out successful businesses similar in size and focus to your own and ask about their accountant's performance.

Meeting of the Minds?

Perhaps more than anything, you need an accountant you trust and with whom you feel you can communicate honestly in all types of situations. If you have doubts about a person, go with your gut instinct. You'll probably be right.

© 2018 DST Systems Inc. All rights reserved.

1-338868

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 referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

LPL Financial, Member FINRA/SIPC

This newsletter was created using Newsletter OnDemand, powered by Wealth Management Systems Inc.