YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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While volatility cannot be eliminated, it can potentially be reduced. These strategies may help you reduce the volatility in your portfolio.

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For long-term investors, keeping a focus on big-picture goals, such as retirement, and not being distracted by day-to-day market moves is key to success.

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Inherited money from a deceased person's 401(k), 403(b), or 457 plan? Your options in managing those assets will depend on your particular circumstances.

Ten Investment Mistakes to Avoid

There are many ways to lose money. Here's a look at 10 proven ways to manage your stock portfolio into the ground in no time.

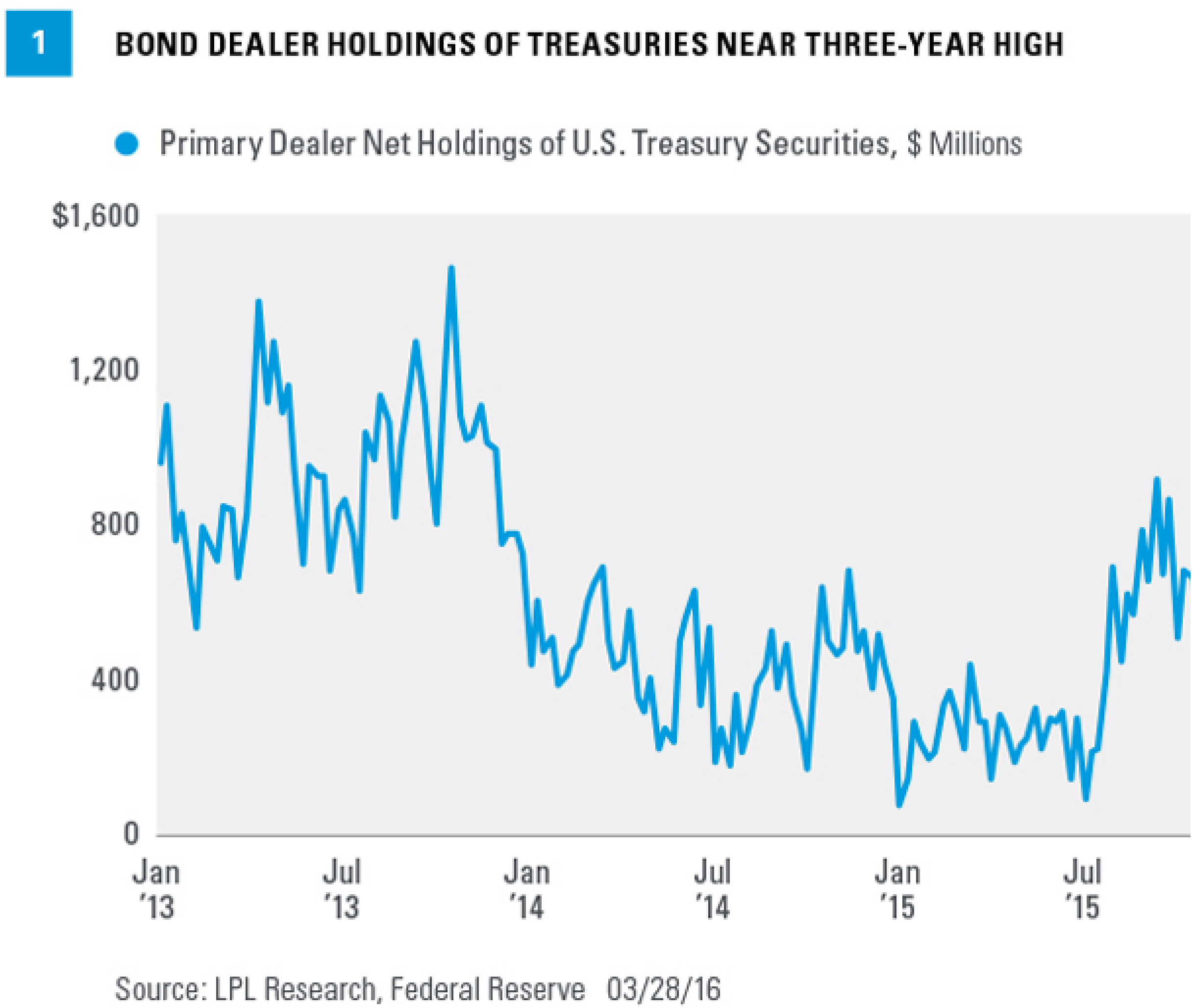
Highlights

- Dealer inventories can affect the bond market, but less so than bond yields' true drivers: economic growth, inflation, a
- Risks from foreign selling, or the prospect of a fragile market, are manageable in our view.

Rising Bond Dealer Holdings

The recent rise in bond dealer Treasury holdings has spawned concerns about the U.S. bond market, ranging from foreign selli fragility of the bond market. Elevated bond dealer holdings can present a threat to bond prices, which is relevant now given bo 2016, but we do not see substantial risks. High dealer inventories may have a short-term impact, but, in our view, are highly u economic growth, inflation rates, and Federal Reserve (Fed) policy as the primary drivers of bond yields.

Dealer inventories of U.S. Treasury bonds have increased to the highest levels since the taper tantrum in 2013 [Figure 1]. The inventories began this January when China conducted its latest round of currency devaluation.



FOREIGN SELLERS

China partially funded its currency devaluation by selling some Treasury holdings, raising the fear that U.S. dollar strength ma selling by other countries. International investors still own roughly 50% of outstanding Treasury securities, with China the larg

The Treasury's recently released Treasury International Capital (TIC) report revealed that foreign central banks and governme Treasuries in January 2016. However, TIC data cover both official (government) and private international investors. Private fo were buyers and helped offset central bank Treasury selling in January. Global economic concerns and U.S. dollar strength are behind private foreign investor purchases.

Concerns over China's Treasury sales may be overblown. China has been a net seller in recent months, liquidating more than $ July 2015, just ahead of its first notable currency devaluation in August 2015. However, Treasuries have strengthened signific 2015, with the 10-year Treasury yield falling by 0.5% from the end of June 2015 through March 28, 2016, defying fears that f might lead to a rout in the Treasury market.

In fact, China has often been a seller of Treasuries since early 2014, but that has failed to derail a gradual decline in Treasury y The relationship between China's Treasury holdings (including Belgium, where some of China's Treasury holdings are custodi yield changes is inconsistent at best. Concerns over foreign Treasuries sales will likely persist in the popular media but the Tre shown an ability to absorb such flows.

Click here for Figure 2

MARKET MECHANICS

Simple market mechanics have also played a role. A strong Treasury rally, which began very early in January 2016, ultimately opportunity to sell in February and March, given the magnitude of gains. The stock market also recovered in mid-February an investors with another reason to sell. By mid-March, the substantial 0.6% decline in the 10-year Treasury yield from January 1 2016, was cut in half. Long-term Treasuries, which led performance of high-quality bonds early in 2016,* comprise a sizable run-up in dealer inventories in recent weeks, according to TIC data.

The level of dealer Treasury holdings bears a close, but not perfect, relationship with the level of Treasury yields, meaning tha act as a shock absorber in up and down markets [Figure 3]. During higher-yielding environments, inventories are lower (and n conversely, inventories are higher in lower-yielding environments. Dealers act as a source of liquidity for all market participan of the post-2008 period has been influenced by financial regulation, which has motivated bond dealers to hold Treasuries at th bond sectors.

Click here for Figure 3

Still, the overall level of inventories suggests bond dealers' capacity to take on additional inventory is limited, and this poses a bond market. Renewed selling could lead to losses, as dealers may be reluctant to support the market. In this way, inventories contrarian indicator for market direction; but their history as a timing indicator tool is spotty, as inventories can remain lean or time before markets react.

On a positive note, elevated inventories have occurred several times before with only one, the 2013 taper-tantrum, resulting in sell-off. Bond dealer inventories declined slightly at the end of March 2016, suggesting this risk is fading.

QUARTER END

Historically, the end of every quarter often results in elevated dealer inventory as bond dealers clean up balance sheets for fina purposes. On a global basis, this holds true as well; the end of March marks the end of the fiscal year in Japan, a historically w bonds influenced in part by Japanese sales as money is repatriated. This phenomenon has faded in recent years but could be an relatively high dealer inventories.

CONCLUSION

The recent rise in dealer inventories is not attributable to any single factor, but a strong start to 2016 for high-quality bonds, a market, foreign central bank selling, and quarter end are all likely contributors. These market forces do not detract from what primary drivers of bond yields: economic growth, inflation, and Fed policy. The still high level of inventories suggests the bon sensitive to additional selling, but it is likely not enough to offset the impact of these fundamental drivers. This week's batch o data, which should impact all three of these drivers, will potentially hold more sway on bond yields than the dealer inventories

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recom any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing 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 strategi successful.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rate 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 interes maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will flu

Treasury international capital (TIC) is select groups of capital that are monitored with regards to their international movemer international capital is used as an economic indicator that tracks the flow of Treasury and agency securities, as well as corpo equities, into and out of the United States. TIC data are important to investors, especially with the increasing amount of foreig the U.S. financial markets.

INDEX DESCRIPTIONS

The Barclays U.S. Government Bond Index is comprised of the U.S. Treasury and U.S. agency indexes. The index includes U.S dollar-denominated, fixed-rate, nominal U.S. Treasuries and U.S. agency debentures (securities issued by U.S. government ow government sponsored entities, and debt explicitly guaranteed by the U.S. government).

Three Strategies to Help You Manage Volatility

Equity investors looking to limit volatility may want to consider dividend-paying stocks.

Managing an investment portfolio is a challenge. Recent market cycles have tested many investors' commitment to their long-term investment plans.

Understand that while volatility cannot be eliminated, it can potentially be reduced. The following three strategies can be used to help you reduce the amount of volatility in your portfolio.

Strategy 1: Seek Investments With Low Correlation

Longer term, the market risk associated with an individual asset class, such as stocks, may be reduced by allocating a portion of a portfolio's assets to other types of investments that historically have reacted differently to market and economic events.[1] This is known as "correlation," which measures the tendency of two investments to move together. A correlation close to zero indicates that two investments are largely independent of each other. The closer a correlation is to 1.00, the greater the tendency two investments have had to move in tandem. The table below lists four assets that have had relatively low correlations with U.S. stocks during the past decade.[2] Past performance does not guarantee future results.

	Commodities	Cash	Investment-Grade Bonds	Home Prices
Large-Cap Stocks	0.50	-0.11	0.04	0.17

Strategy 2: Diversify Your Investments[1]

Modern portfolio theory is founded on the assumption that investment markets do not reward investors for taking on risks that could be eliminated though diversification. There are many strategies available for diversifying a stock portfolio. Investors can allocate portions of a portfolio to domestic and international stocks, which may take turns outperforming depending on circumstances in various global economies.[3] An allocation to small-cap, midcap, and large-cap stocks also provides exposure to companies of various sizes. Although there are no guarantees, smaller companies may be nimble enough to exploit untapped market niches and capitalize on growth potential.[4]

Strategy 3: Consider Dividend-Paying Stocks

In addition, equity investors looking to limit volatility may want to consider dividend-paying stocks. Although a company can potentially eliminate or reduce dividends at any time, a dividend may provide something in the way of a return even when stock prices are volatile. When evaluating dividend-paying stocks, it may be worthwhile to review how long a company has paid a dividend and whether the dividend has increased over time. According to a study by S&P Dow Jones Indices, firms that had increased their dividends for the past 25 years outperformed the S&P 500 and also were less volatile during the 5-year, 10-year, and 15-year periods ending June 30, 2015.[5] Past performance does not guarantee future results.

For investors interested in managing volatility, low-correlation investments, diversification, and dividend-paying stocks may be worth considering.

[1] *Asset allocation and diversification do not ensure a profit or protect against a loss.*

[2] *Source: DST Systems, Inc. Large-cap stocks are represented by the S&P 500 Index, commodities by the Standard & Poor's GSCI®, cash by the Barclays 3-Month Treasury Bill Index, investment-grade bonds by the Barclays Aggregate Bond Index, home prices by the S&P/Case-Shiller 20-City Composite Home Price Index. You cannot invest directly in an index. Past performance is not a guarantee of future results. Data is based on the 10-year period ending December 31, 2015.*

[3] *Foreign stocks involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.*

[4] *Securities of smaller companies may be more volatile than those of larger companies. The illiquidity of the small-cap market may adversely affect the value of these investments.*

[5] *Source: S&P Dow Jones Indices. Returns are based on the S&P 500 Dividends Aristocrats. Volatility is measured by a statistic known as standard deviation. Past performance does not guarantee future results.*

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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.

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Options for Inherited Assets From an Employer-Sponsored Retirement Plan

If your spouse had already begun taking RMDs, you must continue to take them at least at the same rate.

If you recently inherited retirement assets from a deceased loved one, it is important to pay attention to IRS rules that govern this type of bequest. Your options in managing this money typically depend on your relationship to the deceased and whether he or she had already begun taking required minimum distributions (RMDs) upon reaching age 70½.

Considerations for Spouses

Spouses have three options when it comes to inheriting assets from a qualified defined contribution retirement plan:

- Keep it in the plan.
- Take the assets as a lump sum.
- Transfer the assets into their own IRA.

As long as your spouse's plan permits, you may keep the assets in the plan as a "beneficiary account" and continue to enjoy its tax-deferred status. If your spouse had already begun taking RMDs, you must continue to take them at least at the same rate. If your spouse had not yet begun taking RMDs, you can delay taking them until the year your spouse would have turned age 70½.

If you take a lump-sum distribution, you will be required to pay income taxes on the full amount. Twenty percent of the amount due to you will be withheld automatically.

If you transfer the assets into an IRA, you are not required to pay federal estate or income taxes if the assets are left intact within the estate. After reaching age 70½, you must begin RMDs based on your life expectancy. If you have already begun taking RMDs, you must take your distribution for the year before transferring the assets into your account.

Considerations for Non-spouses

Non-spouses also have three options:

- Keep it in the plan.
- Take the assets as a lump sum.
- Roll over the assets into an inherited IRA.

Your option to keep it in the plan is dependent on plan guidelines: Some will allow you to keep the account in the plan; some will require you to withdraw the assets. If the deceased had already begun taking RMDs, you must continue taking them at the same rate or faster. If the deceased had not yet begun taking RMDs, you must begin taking distributions by the end of the year after the person died.

As with the spousal scenario, taking a lump-sum distribution will necessitate the payment of income taxes on the full amount. Twenty percent of the amount due to you will be withheld automatically.

If you are opening an inherited IRA, the account must be held in the name of the original participant, with you listed as the beneficiary. You will be taxed on your distributions as you take them.

Considerations for Trusts

For estate planning reasons, sometimes the deceased designated a trust, not an individual, as the beneficiary. Often it is assumed without detailed analysis that because the beneficiary was a trust, the money must be withdrawn immediately. However, each trust document is different. In certain situations, you may be able to treat the inherited account as though you were the named beneficiary. In other situations, you may have no choice but to close the account immediately. Before you act, you should have a professional specializing in this area review the trust document and help you understand your options.

Because determining the tax status of inherited retirement assets can be complicated, you may want to consult an estate planning attorney, tax professional, or a financial advisor to answer any questions you may have.

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Ten Investment Mistakes to Avoid

The temptation to sell is always highest when the market drops the furthest.

Who needs a pyramid scheme or a crooked money manager when you can lose money in the stock market all by yourself. If you want to help curb your loss potential, avoid these 10 strategies.

1. **Go with the herd.** If everyone else is buying it, it must be good, right? Wrong. Investors tend to do what everyone else is doing and are overly optimistic when the market goes up and overly pessimistic when the market goes down. For instance, in 2008, the largest monthly outflow of U.S. domestic equity funds occurred after the market had fallen over 25% from its peak. And in 2011, the only time net inflows were recorded was before the market slid over 10%.[1]
2. **Put all of your bets on one high-flying stock.** If only you had invested all your money in Apple 10 years ago, you'd be a millionaire today. Perhaps, but what if, instead, you had invested in Enron, Conseco, CIT, WorldCom, Washington Mutual, or Lehman Brothers? All were high flyers at one point, yet all have since filed for bankruptcy, making them perfect candidates for the downwardly mobile investor.
3. **Buy when the market is up.** If the market is on a tear, how can you lose? Just ask the hordes of investors who flocked to stocks in 1999 and early 2000 -- and then lost their shirts in the ensuing bear market.
4. **Sell when the market is down.** The temptation to sell is always highest when the market drops the furthest. And it's what many inexperienced investors tend to do, locking in losses and precluding future recoveries.
5. **Stay on the sidelines until markets calm down.** Since markets almost never "calm down," this is the perfect rationale to never get in. In today's world, that means settling for a miniscule return that may not even keep pace with inflation.
6. **Buy on tips from friends.** Who needs professional advice when your new buddy from the gym can give you some great tips? If his stock suggestions are as good as his abs workout tips, you can't go wrong.
7. **Rely on the pundits for advice.** With all the experts out there crowding the airwaves with their recommendations, why not take their advice? But which advice should you follow? Cramer may say buy, while Buffett says sell. And remember that what pundits sell best is themselves.
8. **Go with your gut.** Fundamental research may be OK for the pros, but it's much easier to buy or sell based on what your gut tells you. Had problems with your laptop lately? Maybe you should sell that IBM stock. When it comes to hunches, irrationality rules.
9. **React frequently to market volatility.** Responding to the market's daily ups and downs is a surefire way to lock in losses. Even professional traders have a poor track record of guessing the market's bigger shifts, let alone daily fluctuations.
10. **Set it and forget it.** Ignoring your portfolio until you're ready to cash it in gives it the perfect opportunity to go completely out of balance, with past winners dominating. It also makes for a major misalignment of original investing goals and shifting life-stage priorities.

[1] *Sources: ICI; Standard & Poor's. The stock market is represented by the S&P 500, an unmanaged index considered representative of large-cap U.S. stocks. These hypothetical examples are for illustrative purposes only, and are not intended as investment advice.*

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