Clear Financial Group

YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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Modeled after 529 college savings plans, ABLE accounts offer disabled Americans a way to save for qualified education, job training, and other expenses in a tax-advantaged manner.

KEY TAKEAWAYS

- Emerging markets debt (EMD) spreads have moved above 4%, a level that has attracted buying interest in recent years.
- EMD is more sensitive to interest rates than the broad U.S. fixed income market.
- We continue to favor high-yield bonds due to their lower interest rate sensitivity.

CHINA'S EFFECT ON EMERGING MARKETS DEBT

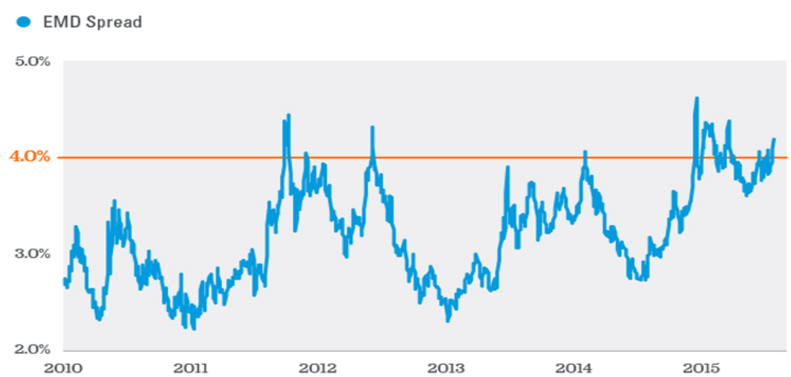
Volatile Chinese equity markets have been a popular topic of late, but impacts to broader emerging market countries appear limited. Equity market movements do not necessarily influence economic conditions; and it is also important to keep in mind that mainland Chinese stocks, as measured by the Shanghai Composite Index, are still over 15% higher year to date (through Monday, July 26) even after the recent correction. Furthermore, while China is a major force in emerging markets, it only holds a weighting of 5.6% in the J.P. Morgan Emerging Markets Bond Global Index (EMBI), making it the sixth-largest component. So while China may be the cause of recent media headlines, there are other, more impactful drivers of emerging markets debt (EMD) performance.

SPREADS DRIVE RETURNS

One of the major drivers of EMD performance is the yield spread between EMD and comparable maturity Treasuries. A narrowing EMD yield spread, either in an up or down market, indicates EMD is outperforming comparable maturity Treasuries, and vice versa, with a widening yield spread. Yield spreads are a measure of risk premiums, and a changing yield spread reflects changing risks due to a variety of drivers, including economic growth expectations, country-specific risks, and currency fluctuations. Expanding yield spreads indicate rising risk premiums and that investors require a higher level of return for the asset class, likely due to an increased perception of risk.

The average EMD yield spread recently increased above 4%, which has been a point of buying interest over the past five years [Figure 1]. Higher yield spreads imply more attractive valuations; an average yield spread above 4% has been rare in recent years and an indicator of value.

1 EMD YIELD SPREADS HAVE INCREASED ABOVE 4%



Source: LPL Research, Bloomberg 07/28/15

The EMD spread is the yield on the J.P. Morgan Emerging Markets Bond Global Index minus the yield on U.S. Treasuries.

Indexes are unmanaged and cannot be invested into directly. Past performance is not indicative of future results.

EMERGING MARKETS ARE NOT CREATED EQUAL

Though emerging markets are often discussed as if they are a group of countries that share similar characteristics and performance, this isn't always the case. While emerging markets are generally expected to grow faster than their developed counterparts, similarities often end there. More than 60 countries are represented in the EMBI, but investors don't have to dig through all of them to identify differences in economic expectations. Figure 2 shows the variability in economic growth rates, inflation, real five-year bond yields (nominal yields minus inflation), and recent central bank moves among the well-known BRIC (Brazil, Russia, India, and China) countries. U.S. data are also included for comparison purposes, and one point of note is that the real five-year government bond yields for each of the BRIC countries exceed that of the U.S, which is another sign of attractive valuations. The diverse nature of emerging market economies, and the fact that data are typically not as plentiful or easy to access as in developed markets, are two reasons why we believe active management may make sense for the EMD asset class.

2 THE ECONOMIC PERFORMANCE OF EM COUNTRIES VARIES

Country	GDP Growth Rate	Inflation	Real 5-Year Bond Yield	Most Recent Central Bank Move
Brazil	0.15%	5.05%	8.00%	+ 50 bps on 6/3/15
Russia	0.59%	7.83%	2.92%	-100 bps on 6/15/15
India	7.08%	6.35%	1.64%	-25 bps on 6/2/15
China	7.35%	1.98%	1.22%	-25 bps on 6/28/15
U.S.	2.39%	1.61%	-0.03%	-100 bps on 12/16/08

Source: LPL Research, Factset, Federal Reserve, Central Bank of Brazil, Bank of Russia, Reserve Bank of India, People's Bank of China 07/28/15

GDP and inflation data are for full year 2014.

Basis points are a unit relating to interest rates that is equal to 1/100th of a percentage point. It is frequently but not exclusively used to express differences in interest rates of less than 1%.

EMD RISKS

Aside from Chinese contagion, lower oil prices, the strong dollar, and the start of Federal Reserve (Fed) rate hikes are generally being viewed as risks to EMD. Of these, we view the possibility of Fed rate hikes as least threatening because the start of interest rate increases has been widely anticipated, and over the past two years, many emerging market countries have reduced their dependency to foreign capital flows. Lower oil prices can have offsetting impacts, as lower prices adversely impact oil-exporting countries but benefit energy importers. A stronger U.S. dollar is perhaps a more serious threat, because a rising dollar increases the cost of dollar-denominated EMD to an issuing country. Emerging market exporters receive less local currency in response to a stronger dollar, which can restrain growth. Still, these risks may be accounted for with an average yield spread above 4%.

LOCAL VERSUS HARD CURRENCY

Currency moves can have a large effect on EMD returns, and the strength of the U.S. dollar has been a headwind for local currency denominated EMD. EMD can be issued in either the issuer's local currency, or major international currencies (referred to as hard currency), such as the U.S. dollar (most common) or euro. Governments generally prefer to issue in local currencies where possible, although this may not be feasible for many reasons, including low levels of liquidity and volatility in currency markets that leads to low levels of demand from foreign investors. For countries that cannot issue in local currency, bonds can be issued in hard currency to make them more attractive to international investors. While this reduces the risk of currency devaluation to the investor, it increases the risk to the issuing country, as it will have to use its own local currency to buy the hard currency used for principal and interest payments. From an investor standpoint, local currency EMD is more volatile due to the currency fluctuation for a U.S.-based investor. Conversely, hard currency EMD is primarily dollar denominated, and therefore, is not impacted by such currency movements.

INTEREST RATE SENSITIVITY

Most investors may not realize the potential interest rate sensitivity of EMD investments. The EMBI, with a duration of 7.1, is more interest rate sensitive than the Barclays U.S. Aggregate (duration of 5.5). Although we do not expect interest rate levels to rise quickly, an increase in rates may have a larger effect on EMD than on the broader U.S. fixed income market, which may be a headwind for the sector.

CONCLUSION

While the economic risks in China will likely continue to make headlines, so far Chinese equity market weakness has had limited follow-through to emerging market fundamentals. Nonetheless, average yield spreads have increased in response to China's stock market volatility and also due to U.S. dollar strength. An average yield spread of 4% or more factors in a lot of these risks and has provided investors opportunity in the past. Still, a longer average duration for the EMBI is a potential headwind in the event that interest rates rise, especially relative to domestic high-yield bonds, which offer higher yields and have historically exhibited much less interest rate sensitivity.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates. It is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest rate risk or reward for bond prices.

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.

Investing in foreign fixed income securities involves special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with foreign market settlement. Investing in emerging markets may accentuate these risks.

High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

INDEX DESCRIPTIONS
The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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).

JP Morgan Emerging Markets Bond Global Index (EMBI Global) tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JP Morgan EMBI+. The EMBI Global includes U.S. dollar denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million.

This research material has been prepared by LPL Financial.

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Tracking #1-404926 (Exp. 07/16)

Spring Cleaning for Your Small Business

Younger business owners tend to use credit cards to fund business expenses more than older owners.

Like most other aspects of your life, your business needs a good spring cleanout and reorganization. Here are a few financial housekeeping tips you may find useful.

Keep Cash Flowing

Regular cash flow forecasting is a critical part of small business management. It allows you to foresee fluctuations in the business and make adjustments to cover expenses. It is foolhardy to keep your fingers crossed and just hope that things will turn out okay in terms of cash flow. You need to be in control and project as best you can what is going to come in and go out for any given period. Small businesses are particularly vulnerable to being blindsided with regard to cash flow. That is why businesses should have an emergency fund.

Maintain Effective Collections/Billing Policies

Late-paying customers are the cause of most small business's cash flow woes. Typically 20% of customers account for 80% of the business -- so it is in your best interest to persuade that 20% to pay on time. Using payment incentives can be an effective way to reduce collection time. Offering a small (up to 5%) discount for payment within 10 days may motivate many customers to pay quickly. Another consideration is billing more frequently. Over time, this practice may boost flow by reducing your "float" period.

Use Credit Wisely

Younger business owners tend to use credit cards to fund business expenses more than older owners. This can be a dangerous practice, especially if they are paying between 15% and 20% interest. Typically a bank loan is a better choice, and among the various options, a line of credit is preferable to a small business loan. With a small business loan, the interest on the entire loan starts accruing when the money transfers from the bank to your account. Why pay interest on $20,000 when you have only used $5,000? When using credit, the important thing is timing. Be very specific about when you need the money and how much you need.

As your business grows and cash management becomes an even bigger issue, look to your business banker for assistance in improving your company's bottom line.

Tracking # 1-387036

Intergenerational Wealth Planning: A Win-Win for the Whole Family

Opening the dialogue about wealth transfer is a complicated, personal decision. It is influenced largely by how wealth holders themselves have been brought up to view money and the responsibilities that come with it.

Discussing the transfer of wealth from parents to children can be uncomfortable for both parties. Yet by introducing children to the wealth management process from a young age, affluent families may be able to reduce family tensions later in life and help ensure that the planning tradition passes intact to future generations.

Closing the Communication Gap

Opening the dialogue about wealth transfer is a complicated, personal decision that is influenced largely by how wealth holders themselves have been brought up to view money and the responsibilities that come with it. For instance, some individuals may fear that discussing wealth with their children will lead to feelings of expectation and entitlement. Others may simply prefer to control all money issues themselves. Still others with young children may be uncertain about their future wealth and reluctant to discuss it until their children are older and have proven how well -- or poorly -- they handle money.

Embracing the Planning Process

One strategy that may help families overcome planning challenges is to think about wealth planning not as a one-time exercise, but as a process that you live with every day -- and that you integrate into children's lives at a very early age.

For instance, when children are young, you can teach them to divide their allowances into three portions -- one for saving, one for spending, and one for giving. Consider matching their giving and saving money and set an example by handling your own money in a similar fashion.

Once children become teenagers, allow them to make their own decisions about how they spend their money, and as difficult as it may be, allow them to live with the consequences of their decisions. As children make the passage to adulthood, gradually involve them in the family business as well as the family's charitable giving activities.

Creating a Win-Win Solution

Certainly, the more wealth a family has, the more important it becomes to make managing wealth a process, especially if wealth has existed for multiple generations and there are instruments such as family foundations in place. In this way, early involvement helps families prepare heirs for their future role as stewards of the family wealth. It also helps develop the skills and experience needed to manage a family business or wealth plan, while ensuring that such knowledge is shared and passes successfully to the next generation.

Working With Professionals

Working together with your team of planning professionals -- your financial advisor and estate and/or tax planner -- you will be able to assess your current situation and develop first steps toward implementing a plan of action.

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

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It's 2015: Do You Know Who Your Beneficiaries Are?

Many IRA owners may not be aware that after their death, the primary beneficiary -- usually the surviving spouse -- may have the right to transfer part or all of the IRA assets into another account.

Many investors have taken advantage of pretax contributions to their company's employer-sponsored retirement plan and/or make annual contributions to an IRA. If you participate in a qualified plan program you may be overlooking an important housekeeping issue: beneficiary designations.

An improper designation could make life difficult for your family in the event of your untimely death by putting assets out of reach of those you had hoped to provide for and possibly increasing their tax burdens. Further, if you have switched jobs, become a new parent, been divorced, or survived a spouse or even a child, your current beneficiary designations may need to be updated.

Consider the "What Ifs"

In the heat of divorce proceedings, for example, the task of revising one's beneficiary designations has been known to fall through the cracks. While a court decree that ends a marriage does terminate the provisions of a will that would otherwise leave estate proceeds to a now-former spouse, it does not automatically revise that former spouse's beneficiary status on separate documents such as employer-sponsored retirement accounts and IRAs.

Many IRA owners may not be aware that after their death, the primary beneficiary -- usually the surviving spouse -- may have the right to transfer part or all of the IRA assets into another account. Take the case of the IRA owner who has children from a previous marriage. If, after the owner's death, the surviving spouse moved those assets into his or her own IRA and named his or her biological children as beneficiaries, the original IRA owner's children could legally be shut out of any benefits.

Also keep in mind that the law requires that a spouse be the primary beneficiary of a 401(k) or a profit-sharing account unless he/she waives that right in writing. A waiver may make sense in a second marriage -- if a new spouse is already financially set or if children from a first marriage are more likely to need the money. Single people can name whomever they choose. And nonspouse beneficiaries are now eligible for a tax-free transfer to an IRA.

The IRS has also issued regulations that dramatically simplify the way certain distributions affect IRA owners and their beneficiaries. Consult your tax advisor on how these rule changes may affect your situation.

To Simplify, Consolidate

Elsewhere, in today's workplace, it is not uncommon to switch employers every few years. If you have changed jobs and left your assets in your former employers' plans, you may want to consider moving these assets into a rollover IRA. Consolidating multiple retirement plans into a single tax-advantaged account can make it easier to track your investment performance and streamline your records, including beneficiary designations.

Review Your Current Situation

If you are currently contributing to an employer-sponsored retirement plan and/or an IRA contact your benefits administrator -- or, in the case of the IRA, the financial institution -- and request to review your current beneficiary designations. You may want to do this with the help of your tax advisor or estate planning professional to ensure that these documents are in synch with other aspects of your estate plan. Ask your estate planner/attorney about the proper use of such terms as "per stirpes" and "per capita" as well as about the proper use of trusts to achieve certain estate planning goals. Your planning professional can help you focus on many important issues, including percentage breakdowns, especially when minor children and those with special needs are involved.

Finally, be sure to keep copies of all your designation forms in a safe place and let family members know where they can be found.

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Tracking # 1-387030

ABLE accounts can be set up starting this year, but as with 529 plans, individual states must take the lead in making them available to individuals and families.

The ABLE Act: Helping Disabled Americans Save for the Future

Late last year President Obama signed into law legislation aimed at giving disabled Americans and their families the opportunity to save for education and other related expenses in a tax-friendly vehicle without jeopardizing their federal benefits.

What ABLE Offers

Modeled after 529 college savings plans, money invested in "Achieving a Better Life Experience" (ABLE) accounts can be withdrawn tax free to pay for qualified expenses including education and job training, transportation, health care, and housing.[1] Individuals can amass as much as $100,000 in such accounts without affecting their eligibility for Social Security Income (SSI) and other federal benefits. Further, Medicaid coverage will not be affected by how much money is accrued in an ABLE account.

This legislation marks a major departure from the financial constraints that -- up until now -- prevented people with disabilities from doing what the rest of us take for granted: setting aside money for future use. Prior to this law, to remain eligible for government assistance individuals had to report to the IRS any savings in excess of $2,000. (Assets placed in special needs trusts to be used for the benefit of the disabled person continue to be an exception, and do not disqualify that individual from receiving his or her government benefits.)

Not a Cure-All

Still, some restrictions apply. For instance, to qualify for an ABLE account, an individual must have experienced the onset of his or her disability prior to the age of 26. Each beneficiary can have only one account, and while there are no limits on how many family members and friends can contribute to the account, there are limits on how much can be contributed annually. For 2015, the total annual gifting limit allowed is $14,000, an amount that is adjusted for inflation each year. Any account accumulation totals in excess of $100,000 would trigger a suspension of the recipient's SSI benefits, but Medicaid benefits would continue.

States Must Get On Board

ABLE accounts can be set up starting this year, but as with 529 plans, individual states must take the lead in making them available to individuals and families. Some states, including California, Maryland, and Pennsylvania already have plans in the works.[2] Generally beneficiaries must belong to their home-state plan -- and spending of account assets can occur only in the individual's state of residence -- although exceptions (and individual state tax benefits) may apply.[2] If the ABLE account beneficiary dies, any funds remaining in the account may be claimed by the state to recoup expenses paid by Medicaid.

While the ABLE Act is by no means a cure-all, it does take a small, important step toward helping millions of disabled Americans live a more independent, fulfilling life.

[1] *Disability Scoop, "Obama Signs ABLE Act," December 22, 2014.*

[2] *AARP, "New 529 Plan Created for People With Disabilities," December 22, 2014.*

1-371778