YOUR FINANCIAL FUTURE

Your Guide to Life Planning

December 2015

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

KEY TAKEAWAYS

- This week's Fed meeting minutes may provide insight into the likelihood of a December rate hike.
- Another catalyst is likely needed to break bonds out of a broader range that has defined trading for the past several months.

WAITING FOR THE FED

The inverse correlation between stocks and high-quality bonds failed to hold over the past week, after holding for October 2015, suggesting other forces are at work. The answer to the bond market's indifference to risk asset performance may lie in market fixation over a possible Federal Reserve (Fed) rate hike in December 2015. According to fed fund futures pricing, market expectations for the timing of the Fed's first rate were essentially unchanged, with the probability of a December rate hike marginally lower on the week to 64% from 70%.

HOLDING FIRM

Fed speakers' public remarks, notably Fed Chair Yellen and Vice Chairman Dudley, indicated that a slow pace of rate hikes is likely warranted given global challenges but that liftoff is still likely in December. They are holding firm to a possible December timeline, despite tepid domestic economic data last week and mixed results from China's latest batch of economic data. Additionally, U.S. dollar strength (a driver of low inflation expectations and a support for high-quality bonds) persisted and oil prices dropped, raising default expectations in the high-yield bond market. The economic backdrop may have tempered investors' longer-term growth expectations, but the Fed's message kept investors focused on December as the likely liftoff for rate hikes.

CORPORATE ISSUANCE

When performance does not respond to fundamental drivers as expected, it may point to other market forces at work. Investment-grade corporate bond issuance remains heavy, with year-to-date 2015 new issuance running almost 15% greater than the 2014 pace and well on its way to a record year. When corporate issuance is robust, bond dealers often sell-short Treasuries as a hedge. By shorting Treasuries, dealers protect against price declines in the event a corporate bond deal takes longer to sell. The short Treasury position can help offset price declines on new issue corporate inventory. Short Treasury trades, or even bond traders anticipating new issuance-related Treasury selling, can influence prices and override the impact of fundamental news. Of course, the unwinding of these hedges can also push Treasury prices higher in the absence of fundamental data. For now, the continued surge in corporate new issuance, which includes a hefty $30 billion per week pace thus far in November, has proven a headwind for high-quality bonds. Over the past three years, investment-grade corporate bond issuance has averaged $20 billion per week.

A similar muted reaction by Treasuries occurred this past August as stock market volatility resulted in only a limited change in Treasury yields. In August, investors were also focused on the Fed and a potential rate increase at the September Federal Open Market Committee (FOMC) meeting.

This week's release of minutes from the October 27-28, 2015, FOMC meeting may be a focal point for the bond market in the absence of significant economic data. Investors will parse the minutes to fine-tune expectations around a potential December rate hike. The release of the Fed meeting minutes has increasingly been a market mover [Figure 1].

1 THE RELEASE OF FED MEETING MINUTES HAS INCREASINGLY BEEN A MARKET MOVER

Release Date of FOMC Minutes	10-Year Treasury Yield Change
10/8/15	+ 0.04%
8/19/15	- 0.06%
7/8/15	- 0.07%
5/20/15	- 0.04%
4/8/15	+ 0.02%
2/18/15	- 0.06%

Source: LPL Research, Federal Reserve 11/16/15

With the exception of the April 8 release, Treasury yields have experienced significant single-day moves on the release of Fed meeting minutes. Yields have more frequently declined rather than increased as the Fed has often deferred to a cautious go-slow approach. Even the September meeting minutes, released on October 8, 2015, were interpreted as dovish by the markets; but strength in more economically sensitive assets, stocks and high-yield bonds, pressured Treasuries.

CONCLUSION

The bond market appeared indifferent to a stock market pullback with only a modest rise in high-quality bond prices last week. High-yield bond prices weakened as well but also failed to spark any surge in Treasuries. Investor rotation to high-quality bonds as a protective measure did not materialize, as would often be the case when stocks and high-yield bonds decline by just over 3% and 1%, respectively.* Conversely, a 1.5% surge in stock prices on Monday, November 16, 2015, failed to generate a significant sell-off in U.S. Treasuries.

Focus on a December rate hike, which futures pricing shows as the most likely point for Fed liftoff, led to a muted reaction to stock market weakness last week. The release of the October Fed meeting minutes this week, the last full week of trading before the Thanksgiving holiday, may provide insight into the likelihood of a December rate hike, but it will likely take another catalyst to break the bonds out of a broader range that has defined trading for 2015 [Figure 2].

**As measured by the S&P 500 Index and Barclays High-Yield Bond Index, respectively, from Nov. 6, 2015 through Nov 13, 2015.*

Click here for Figure 2 "Another Catalyst Is Likely Needed To Push Treasury Yields Out Of The Range"

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.

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.

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

Selling short can result in losses should the borrowed security increase in price, rather than decline. The theoretical potential loss is unlimited. Additionally, short sales will incur interest on the borrowed shares while also being subject to margin calls, or early sales in the event that the original owner wishes to sell their position.

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. 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.

This research material has been prepared by LPL Financial LLC.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial LLC is not an affiliate of and makes no representation with respect to such entity.

Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by Any Government Agency | Not a Bank/Credit Union Deposit

Tracking #1-441093 (Exp. 11/16)

Coping With Market Volatility

Despite the continued strengthening of the U.S. economy, there are many signs that indicate that this turbulent period for stocks may linger indefinitely.

Global market volatility ramped up last summer as worries about the tenuous state of the Chinese economy shook virtually all major financial benchmarks, indicating once again how interrelated the world's economies and investment markets have become.

Widespread uncertainty has not only heightened anxiety among investors, it was also a likely contributor to the Federal Reserve's decision to leave interest rates near zero when the Central Bank's decision-makers met in September. Indeed, despite the continued strengthening of the U.S. economy, there are many signs that indicate that this turbulent period for stocks may linger indefinitely.

Five Investing Strategies for a Volatile Market

For long-term investors, dealing with volatile markets can be taxing. Here are some points you may want to consider while riding out the storm. None of these should be new to you, but they are particularly important in a turbulent environment, which is where their true value is realized.

1. Don't panic -- When markets become volatile, the gut reaction for most of us is to panic -- to buy when everyone else is buying (and when prices are high) -- and panic sell on the downside (when prices are depressed). Panic selling also runs the risk of missing the market's best-performing days. Consider, for example, that missing just the five top-performing days of the 20-year period from July 1, 1995, through June 30, 2015, would have cost you $21,780 based on an original investment of $10,000 in the S&P 500. Missing the top 20 days would have reduced your average annual return from 9.79% to 3.58%.[1]

2. Take advantage of asset allocation -- During volatile times, riskier asset classes such as stocks tend to fluctuate more, while lower-risk assets such as bonds or cash tend to be more stable. By allocating your investments among these different asset classes, you can help smooth out the short-term ups and downs.

3. Diversify, diversify, diversify -- In addition to diversifying your portfolio by asset class, you should also diversify by sector, size (market cap), and style (e.g., growth versus value). Why? Because different sectors, sizes, and styles take turns outperforming one another. By diversifying your holdings according to these parameters, you can potentially smooth out short-term performance fluctuations and mitigate the impact of shifting economic conditions on your portfolio.

4. Keep a long-term perspective -- It is all too easy to get caught up in the stock market's daily roller coaster ride -- especially when markets turn choppy. This type of behavior is natural, but can easily lead to bad decisions. History shows that holding stocks for longer periods has resulted in a much lower chance of losing money. For example, from January 1, 1926, through June 30, 2015, stocks have never had a period of 20 years or longer where returns were negative.[1] The lesson here? Don't get caught up in day-to-day or even week-to-week variations in stock movements in either direction. Instead, focus on whether your long-term performance objectives, i.e., your average returns over time, are meeting your goals.

5. Consult with a financial advisor. He or she can help you develop a long-term investment strategy and can help you put short-term events in perspective.

No one is certain what impact current drivers of volatility will ultimately have on the economy and financial markets. But as an investor, time may be your best ally. Consider using it to your advantage by sticking to your plan and focusing on the future.

[1]ChartSource®, Wealth Management Systems Inc. For the periods indicated. Stocks are represented by the total returns of Standard & Poor's Composite Index of 500 Stocks, an unmanaged index that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index. Past performance is not a guarantee of future results. Copyright © 2015, Wealth Management Systems Inc. All rights reserved. Not responsible for any errors or omissions.

Calculating Taxes on Mutual Funds

As a shareholder, you must pay taxes on dividends or capital gains passed on to you in the year they were received, even if they were automatically reinvested to buy additional fund shares.

For mutual fund investors, earnings come from two sources: fund distributions -- dividends or capital gains -- and the sale of fund shares.[1] Income from these sources may be taxable. Fund companies typically send year-end statements to shareholders that summarize the information used to report investment gains or losses to the IRS. Here's a look at how taxes on your mutual funds are calculated.

Taxable Distributions: Dividends and Capital Gains

As a shareholder, you must pay taxes on dividends or capital gains passed on to you in the year they were received, even if they were automatically reinvested to buy additional fund shares. In general, dividends and capital gains attributable to a fund's underlying investments are taxed as follows:

Long-term capital gains and qualified dividends are taxed at 0% for taxpayers in the 10% and 15% tax brackets, 15% for taxpayers filing singly with incomes less than $413,200 ($464,850 for those who are married filing joint tax returns), and are subject to a top rate of 20% for single taxpayers with income in excess of $413,200 and joint filers with income in excess of $464,850. In addition, net investment income for taxpayers with AGIs in excess of $200,000 (single filers) or $250,000 (married filing jointly) may be subject to the 3.8% Medicare surcharge.

Regular interest income and short-term capital gains on securities held in a fund for less than 12 months are taxed at your ordinary federal income tax rate. Keep in mind that funds with higher turnover (i.e., funds that buy and sell securities often) can result in higher tax liabilities.

Capital Gains From the Sale of Fund Shares

Gains can also be realized when you sell fund shares that have appreciated in value since purchase. Before you can calculate the tax owed on the sale, you have to know your cost basis -- or how much money you paid for the shares, including shares purchased with distributions.

If you sell all of your shares, your cost basis is your total investment (all purchases and reinvested distributions). If, however, you sell some of your shares, determining your cost basis is somewhat complicated. The next section outlines the IRS-approved accounting methods for conducting this calculation.

Calculating Your Cost Basis

- Specific shares: You identify which shares to sell. This method gives you the most control over the amount of gain or loss you report.
- First-in, First-out: This method assumes the first shares purchased are the first to be sold. If you do not indicate otherwise, the IRS assumes you use this method.
- Average cost, single method: With this method you calculate your gain or loss based on the average price you paid for all shares, regardless of how long you have held them. This is the method most mutual fund companies use to provide information to you.
- Average cost, double method: This is the same calculation as above, except shares are divided into short-term and long-term categories and a separate average cost is computed for each.

Keep in mind that net losses incurred from fund investments may be deductible from your income taxes, and that investments in tax-deferred retirement plans, such as a 401(k)s, traditional IRAs, or variable annuities, allow you to defer taxes on all investment earnings until the funds are withdrawn.[2]

Because federal tax laws are complex and fast changing, consult a tax advisor to determine how they apply to your situation.

This information is general in nature and should not be construed as tax advice. Always consult a qualified specialist regarding tax affairs.

[1] *Investing in mutual funds involves risk, including loss of principal. Mutual funds are offered and sold by prospectus only. You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. For more complete information about any mutual fund, including risks, charges and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.*

[2] Withdrawals from qualified plans taken before age 59½ are generally subject to a 10% additional federal tax -- on top of any regular income taxes owed -- although there are a few exceptions to this rule.

1-425688

The Benefits of an Insurance Review

The goal of a life insurance review is to ensure that coverage is aligned with your current and long-term financial needs.

A comprehensive financial strategy involves more than just allocating assets to an investment portfolio. One of the more underrated aspects of personal wealth management is the proper use of life insurance.

Over time, the life insurance industry has evolved to address a variety of financial planning needs. Insurance, for example, can now play an instrumental role in the creation of a family trust.

Seeking Adequate Coverage

The goal of a life insurance review is to ensure that coverage is aligned with your current and long-term financial needs. It takes into account all of your active contracts, including employer-sponsored benefits. If you haven't participated in a review for a while, here are some key questions for you and your insurance professional to explore:

- Have there been any major changes in your family life? (For example, marriage, divorce, or the addition of a household member.)
- Do you have grandchildren for whom you would like to provide?
- Have you changed jobs and had a subsequent change in employer-sponsored benefits?
- Has your net worth increased or decreased significantly?
- Are you planning to fund a child's college education or favorite charity?
- When do you hope to retire?

At the very least, setting aside time to meet with your insurance professional will force you to find your old policies. You may be surprised at what you discover. If you have held certain policies for many years and are current with payments, it's possible that you may have substantial cash values, which could open up new cost-efficient options for greater coverage. You may be able to take advantage of contract riders that offer such features as return of premium and guaranteed death-benefit protections for heirs. Or you can choose to do nothing until your next review.

Getting Started

Like many activities, getting started is the hardest step. No matter what your stage of life, managing your money and providing security for your family is a priority. Take the first step and mark your calendar for a convenient day to contact your financial advisor. During your meeting you can discuss your current financial situation and determine whether it's time for an insurance review.

1-417203

Common Estate Planning Mistakes -- and How to Avoid Them

Whether drafting a basic will or crafting an elaborate strategy involving trusts and tax planning, an estate plan can help reduce estate taxes, save on estate administrative costs, and specify how your assets are to be distributed.

Estate planning can be a minefield of potential missteps, some of which could have far-reaching consequences. Many of the poor choices individuals make when planning for their own future or passing assets to their families are caused by "one-size-fits-all" planning strategies or well-intended advice from family or friends. Following are some common and potentially costly mistakes along with suggestions for avoiding them.

Failing to plan. Whether drafting a basic will or crafting an elaborate strategy involving trusts and tax planning, an estate plan can help reduce estate taxes, save on estate administrative costs and specify how your assets are to be distributed. Today, the majority of Americans have no will. If you die without one, your estate will be divided according to the intestacy laws of your state -- not according to your wishes. This could create problems if your intended beneficiary is a minor child, a child with special needs, a favorite charity, or a combination of the above. In these cases, you need a will that details each contingency and a trust or multiple trusts to accomplish your goals.

Not maximizing your marital estate exemptions. Perhaps one of the most important pieces of tax legislation passed recently is referred to as the "portability" provision. This means that if one spouse dies without using up his or her federal estate tax exemption -- $5.43 million in 2015 -- the unused portion may be transferred to the surviving spouse without incurring any federal estate tax.

How might the portability provision work in a real life situation? Consider the following scenario involving the hypothetical $8 million estate of Jim and Helen:

If Jim dies in 2015, the executor of his estate can elect to use the unlimited spousal exemption and can also transfer Jim's unused $5.43 million federal estate tax exemption to Helen. If Helen dies in 2015 with $8 million in assets, her estate will have a total of $10.86 million in federal estate-tax exemptions: the $5.43 million exclusion transferred from Jim and her own $5.43 million exclusion. As a result, none of Jim and Helen's $8 million estate would be subject to federal estate tax.

As welcome as the portability provision may be, it still does not account for future appreciation of assets from the first spouse's estate. Nor does portability offer protection from creditors and others aiming to lay claim on an estate's assets. Traditional strategies like credit shelter trusts and bypass trusts do provide these benefits and therefore are still essential planning instruments for married couples.

Naming a family member as executor. Your executor is the person who will be responsible for administering your estate after death. The responsibilities of an executor are serious, and you will want someone who will take them seriously. There are many important reasons to choose a paid executor -- a bank or trust company, for instance -- along with (or instead of) a spouse or family member. A professional executor is familiar with the probate process and may actually save the family money, keeping expenses under control. This will undoubtedly be an emotional time for your loved ones, and a family member may find it difficult to focus on the details involved with settling an estate. In addition, when you name a family member, especially a beneficiary as executor, you introduce the potential for conflict of interest. The larger the estate, the more likely those conflicts become.

Relying on advice from family or friends. Would you go to a friend or relative for surgery or to fix your car if he or she was not a skilled surgeon or auto mechanic? Why would you take their advice about estate planning issues if they are not professional planners? When seeking a professional, look for a specialist -- someone who knows trusts, estate tax law, and probate issues. A specialist will have more experience and skill in his/her chosen area -- and that will translate into higher quality services provided in the most cost effective manner.

No set of rules or advice can apply in all cases, but a sure way to avoid these and other problems is to rely on a trusted team of tax and legal professionals led by your financial advisor.

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

1-436522