YOUR FINANCIAL FUTURE

Your Guide to Life Planning

April 2017

We thought of you when we reviewed this article and hope you find it interesting. Please call if you have any questions and we hope all is well!

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Bond Market Perspectives | Week of April 3, 2017

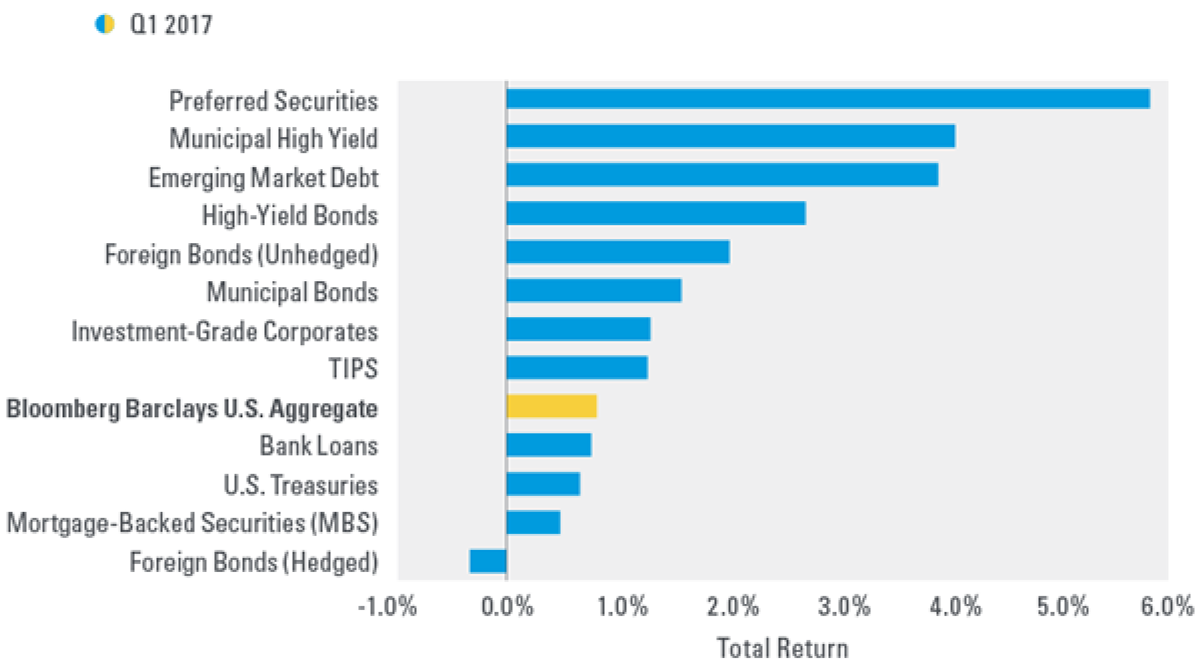
Highlights

- Almost all fixed income sectors posted positive returns in the first quarter of 2017--a strong start to the year.
- A flattening yield curve was a tailwind for longer-maturity fixed income, as a Fed rate hike pressured shorter-term yields higher.
- Economically sensitive, lower-quality fixed income had another strong quarter, but may have set an unsustainable pace for the year.

Q1 Recap: Strong Start

Fixed income is off to a good start in 2017, with almost all sectors in positive territory for the year at the end of the first quarter. It was in many ways a reversal of the fourth quarter of 2016, with some election-driven trades unwinding, as longer-duration fixed income benefitted from markets that may have overshot their landing in the fourth quarter of 2016 [Figure 1].

1 LOWER-QUALITY AND LONGER-DURATION FIXED INCOME FARED BEST IN THE FIRST QUARTER



Source: LPL Research, FactSet 03/31/17

Indexes referenced are: BofA Merrill Lynch Hybrid Preferred Securities Index, Bloomberg Barclays High Yield Municipal Bond Index, JPMorgan EMBI Global Index, Bloomberg Barclays US High Yield Index, Citigroup World Government Bond Index Unhedged, Bloomberg Barclays Municipal Bond Index, Bloomberg Barclays US Aggregate Credit Index, Bloomberg Barclays US Treasury Inflation Protected Notes Index, Bloomberg Barclays US Aggregate Bond Index, S&P/LSTA Leveraged Loan Index, Bloomberg Barclays US Aggregate Government Treasury Index, Bloomberg Barclays US Aggregate Securitized MBS, Citigroup World Government Bond Index Hedged.

All indices are an unmanaged index and cannot be invested into directly. Past performance is no guarantee of future results.

THE UNDERDOG WINS AGAIN: LONGER DURATION

Talk of rising rates has understandably led investors to remain underweight interest rate sensitivity (duration) relative to the Bloomberg Barclays Aggregate Bond Index, a broad fixed income benchmark, a prudent strategy given the improving economic backdrop and upward trending inflation. Despite that, longer-duration fixed income was actually a relative winner in the first quarter. For example, the Bloomberg Barclays U.S. Treasury Index (duration of 6.1 years) returned 0.7% during the quarter, while the Bloomberg Barclays U.S. Long Treasury Index (duration of 17.2 years) returned 1.4% during the same period.

Longer-term interest rates were slightly lower during the quarter, despite the Federal Reserve (Fed) rate hike on March 15, 2017, which was mainly expressed via higher short-term interest rates. This led to a modest flattening of the Treasury yield curve over the quarter [Figure 2].

Click here for Figure 2: Fed Rate Hike and Moderating Growth Expectations Led to a Flatter Yield Curve

While longer duration benefitted fixed income investors in the first quarter of 2017, we maintain that moving far out in the yield curve is generally not worth the interest rate risk that investors must assume. In our March 14, 2017 *Bond Market Perspectives*, "Finally, Higher Yields in Shorter Maturities," we discussed the potential for investors to stay in the intermediate section of the yield curve without sacrificing much yield relative to longer maturities and without taking on substantially more interest rate risk in the process.

TRUMP TRADES RECOVER

It is no coincidence that two of the hardest hit fixed income sectors post-election, preferreds and municipal high yield, were the two best performing sectors in the first quarter of 2017. Preferred shares were hurt late last year as longer-term rates skyrocketed post-election, leading to a continuation of downward pressure on preferreds that had begun in mid-2016. In the first quarter of 2017, preferreds benefitted from stabilization in longer-term interest rates and from a positive outlook on the financial sector due to anticipated deregulatory policies from the Trump administration. Despite financials' underperformance relative to the broad equity market post-Fed rate hike (March 15-March 31, 2017), preferreds continued their recovery and are currently trading approximately where they peaked in mid-2016.

MUNICIPAL MOMENTUM

With a return of 4.1% over the first quarter, high-yield municipals have recovered partially from their election-driven sell-off in the fourth quarter of 2016 (-5.8%), benefiting from a compelling yield of 6.25% (a 10.34% taxable-equivalent yield assuming a 35% tax rate). Much of the yield advantage is derived from a longer duration profile, which worked well during the first quarter due to flattening of the yield curve. In addition to compelling yields, default risk, a key variable in determining price volatility, remains subdued and appears unlikely to pose a notable risk in 2017. A well-diversified portfolio with exposure to shorter-term high yield may help manage volatility risk moving forward. Outside of high yield, reduced supply and compelling taxable-equivalent yields drove high-quality municipal outperformance relative to Treasuries during the quarter.

FOREIGN BONDS: A DOLLAR AND DIFFERENTIAL STORY

Foreign yields pressed higher during the first quarter of 2017, leading to a -0.4% return for currency-hedged foreign bonds. Unhedged foreign bonds, however, benefitted from the dollar's 1.8% decline during the quarter and returned 2.0%. The yield differential between the 10-year U.S. Treasury and the 10-Year German bund hit its all-time high of 2.36% on December 27, 2016. That elevated differential could only stand for so long as investors migrated out of foreign bonds and into Treasuries to capitalize on the higher domestic yields. That differential fell to end the first quarter at 2.06% [Figure 3].

Click here for Figure 3: Treasuries' Yield Advantage to Bunds Fell During Q1 After Hitting All-Time High

LOWER-QUALITY FIXED INCOME CONTINUES TO CLIMB

Gradually higher-trending equity markets in the first quarter continued to be a tailwind for lower-quality, more economically sensitive segments of fixed income. High yield and emerging markets debt (EMD) benefitted from ongoing spread tightening throughout the quarter. Equity market hesitation in the first two weeks of March 2017 proved to be a greater headwind for high yield than EMD. High yield valuations hit their richest level since mid-2014 in early March, falling to a spread of 3.4%, before widening out above 4%, then moderating to end the quarter at 3.8%. Based on the low default forecasts for this year, we still believe high yield investors could potentially enjoy a mid-single-digit return for the year, but valuations remain elevated and the price of oil and equity market volatility remain important drivers of the asset class.*

Bank loans underperformed high yield during the quarter, with the Bloomberg Barclays High Yield Loan Index returning 0.8%, in line with the Bloomberg Barclays Aggregate. It should be noted that there are differences within bank loans indexes, and the Credit Suisse Leveraged Loan Total Return Index returned 1.2%, outperforming the Aggregate on the quarter. Libor (the London Interbank Offered Rate) continued to grind higher throughout the quarter, benefitting bank loans whose floating rates are tied to the global reference rate. The par nature of the market, where loans can be called at par at any time, created a headwind for the sector as continued demand caused a fair amount of repricing during the quarter.

CONCLUSION

Fixed income has started off 2017 on solid footing, with almost every sector of the market posting a positive total return during the first quarter. A flattening yield curve led to longer duration outperforming short. Lower-quality, economically sensitive segments of the market posted another strong quarter of returns. These are not necessarily the trends that we think will continue through the remainder of the year, however. With long-term rates near the bottom of their respective ranges, long-duration fixed income could come under pressure throughout the year as growth and inflation build. We expect economically sensitive fixed income like high yield to remain stable as the economic expansion continues, but believe they will be hard pressed to continue the spread tightening that has powered returns since February 2016, as valuations are already on the expensive side of fair value.

**As noted in our Outlook 2017: Gauging Market Milestones, we believe interest payments will drive the majority of high-yield's return, similar to high-quality fixed income. Given that, we anticipate mid-single-digit returns driven by interest income for high-yield bonds.*

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.

Preferred securities investing involves risk, which may include loss of principal.

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

International debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets.

Bank loans are loans issued by below-investment-grade companies for short-term funding purposes, with higher yield than short-term debt, and involve risk. These Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

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 Barclays High Yield Bond Index covers the universe of publicly issued debt obligations rated below investment grade. Bonds must be rated below investment grade or high yield (Ba1/BB+ or lower), by at least two of the following ratings agencies: Moody's, S&P, and Fitch. Bonds must also have at least one year to maturity, have at least $150 million in par value outstanding, and must be U.S. dollar denominated and nonconvertible. Bonds issued by countries designated as emerging markets are excluded.

The Barclays U.S. High Yield Loan Index tracks the market for dollar-denominated floating-rate leveraged loans. Instead of individual securities, the U.S. High-Yield Loan Index is composed of loan tranches that may contain multiple contracts at the borrower level.

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 Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market.

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

The Barclays U.S. Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The Barclays U.S. Treasury TIPS Index is a rules-based, market value-weighted index that tracks inflation-protected securities issued by the U.S. Treasury.

The JP Morgan Emerging Markets Bond Index is a benchmark index for measuring the total return performance of international government bonds issued by emerging markets countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements.

The BofA Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index consisting of a set of investment-grade, exchange-traded preferred stocks with outstanding market values of at least $50 million that are covered by Merrill Lynch Fixed Income Research.

The Bloomberg Barclays Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market.

The Bloomberg Barclays High Yield Municipal Bond Index measures the performance of the high yield municipal bond market. To be included in the index, bonds must be rated non-investment-grade (Ba1/BB- or lower) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be non-investment-grade. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark. On August 24, 2016, Bloomberg acquired the Barclays fixed income benchmark indices from Barclays. Barclays and Bloomberg have agreed to co-brand the indices as the Bloomberg Barclays Indices for an initial term of five years.

The Credit Suisse Leveraged Loan index tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

The World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 25 years of history available. The WGBI provides a broad benchmark for the global sovereign fixed income market. Sub-indices are available in any combination of currency, maturity, or rating.

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Women, Wealth, and Legacy Planning

Active participation in wealth management can strengthen women's commitment to protect and grow their assets with the goal of leaving a legacy for their children, their communities, and beyond.

Women play a central role in establishing and preserving family wealth -- whether nurturing the values of children, fulfilling charitable goals, or making investment decisions that affect the financial security of themselves or their families. Consider these statistics:[1]

- Women now control more than half of personal wealth in the United States.
- In more than 40% of households, women are the primary breadwinners, up four-fold since 1960.
- 52% of management and professional positions are held by women.

These and other trends magnify the need for women to be involved in, informed about, and comfortable with their role as guardians of family wealth. Active participation in wealth management can strengthen women's commitment to protect and grow their assets with the goal of leaving a legacy for their children, their communities, and beyond.

Best Practices in Legacy Planning

The following strategies may help assure the smooth transfer of your measurable wealth -- and your values surrounding wealth -- to the next generation.

Education leads to confidence. Attaining financial security for you and your heirs typically requires you to accept responsibility for the management of significant investment assets. Whether you are single, married, or a surviving widow, it is in your best interest to obtain as much education as possible about wealth planning, investments, and related matters. Even if you are not directly responsible for making important financial decisions, it is vital to have knowledge in these areas in order to communicate effectively with professional advisors charged with these duties.

Professionals offer objective, qualified services. Relying on professional advice as opposed to family and friends is extremely important when making decisions affecting the accumulation, preservation, and distribution of wealth. What should you expect from a qualified professional? A good wealth advisor -- or a team with other professionals, such as attorneys and accountants -- should offer guidance and services in most areas of wealth management, including estate planning, retirement planning, insurance needs assessment, and college planning. On a more personal note, a wealth advisor should work closely with you to:

- Identify areas requiring special assistance, such as creating trusts.
- Minimize taxes and planning costs.
- Develop and implement a personalized wealth management plan.
- Review your plan periodically and suggest changes when needed.

Philanthropy is integral to family legacy planning. Wealth holders have a greater opportunity -- if not responsibility -- to make charitable giving an integral part of the legacy planning process. Families that are charitably inclined may have clear goals in mind, but they may not know where to begin. In order to choose the best strategy, you should work with a trusted advisor to evaluate a number of factors, such as tax management objectives, types of assets to be gifted, and your specific strategic intent. Then choose from among a range of charitable-giving vehicles, such as donor-advised funds, family foundations, gift annuities, and charitable remainder trusts/charitable lead trusts.

Children should learn about the responsibilities of wealth. Wealth is a gift that opens doors of opportunity not only for you but also for your children, their children, and generations to come. Yet wealth can be a weighty responsibility that takes time to manage, maintain, and preserve. If you are a parent, you are no doubt concerned about the effects of wealth on your children's values and how the money lessons you pass on to them will resonate as they mature to adulthood.

Family values should be held in the same high regard as family wealth. Family values -- those traits, beliefs, goals, and morals that are shared by members of a family group -- define a family's character as much as dollar signs measure a family's wealth. By holding shared values in high regard and setting an example of commitment to financial responsibility, philanthropy, and volunteerism for the younger generation, you will enrich your family's legacy for generations to come.

A Woman's Worth

As stewards of the family legacy, women are in a unique and influential position. They are holders of great wealth as well as keepers of the family's moral and philanthropic vision. There are many financial, accounting, legal, and business tools to assist women in implementing a plan of action. Contact a financial advisor for guidance in mapping out a legacy planning strategy unique to your situation.

This information is not intended as legal or tax advice and should not be treated as such. You should contact your estate planning and/or tax professional to discuss your personal situation.

[1] *BMO Wealth Institute, Financial Concerns of Women, April 2, 2015.*

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Choosing a Cause With Care

For many nonprofits, the best way to evaluate their operations is to simply ask representatives about their mission, programs, financials, and board of trustees.

Prospective donors can find a suitable charity just about anywhere they look. However by doing some homework, you can better distinguish among the many giving opportunities available to you.

What Makes a Charity a Charity?

Generally, a charity is a tax-exempt organization that can receive tax-deductible contributions. To be recognized as a charity, most organizations must file an application with the IRS. Once approved, the IRS generally issues a determination letter confirming that the organization is tax exempt and that contributions to it are tax deductible for federal income tax purposes.

Mission Critical

While the IRS designation recognizes an organization's intent to operate in the best interest of a cause, it does not evaluate the effectiveness with which the organization pursues its mission. To be successful, a charity needs:

- A mission statement/strategic plan: Does the organization's mission statement clearly state whom or what it serves and what it hopes to achieve -- and how it will execute its plan?
- Financial statement/Form 990: This form provides a financial snapshot of the charity's fiscal strength. The IRS requires most tax-exempt organizations to file a Form 990 annually, although there are many exceptions. Individuals can request copies of a charity's Form 990 directly from the charity or view them online at Foundation Center and other websites.
- Board of Trustees: The board oversees an organization's financial and legal responsibilities, manages its executives, and guides the vision that promotes the organization's cause.

Choose Carefully

While independent groups such as the BBB Wise Giving Alliance and GuideStar provide helpful information, it is ultimately up to you to judge whether a particular charity matches your giving objectives. Before choosing a charity, consider the organization's programs and whether they reflect its stated mission. Request copies of the organization's financial documents, including its annual report and a list of its board members. These should provide a clear view of the charity's operations and its management team. Also, spend some time browsing the charity's website to learn more about its activities, capital campaigns, and other unique features.

Most importantly -- Ask questions! For many nonprofits, the best way to evaluate their operations is to simply ask representatives about their mission, programs, financials, and board of trustees.

In charitable giving, information is critical. By taking time to research your choices, you can rest assured that your generosity will be put to good use.

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Conducting an annual review of your insurance needs can help determine whether your existing coverage is still adequate and can help identify the areas that may need further attention.

Have You Reviewed Your Life Insurance Recently?

Many people follow the performance of their investment portfolios like a hawk, keeping track of even the slightest movement up or down. However, typically, the same cannot be said of their life insurance policies.

There are many different life experiences that may affect ongoing insurance needs and decisions. These may include:

- Management of estate expenses
- A change in marital status
- Birth of a child, or an adult child moving out of the home.
- Transfer of a business interest ("buy-sell" arrangements)

Unfortunately, many people don't take the time to review or revisit their life insurance policies after buying them, assuming they can literally put their life insurance "on the shelf" and forget about it. But doing so can be costly both in terms of lost money and lost opportunity.

Conducting an annual review of your insurance needs can help determine whether your existing coverage is still adequate and can help identify the areas that may need further attention.

As part of your annual financial review for 2017, consider assessing three key aspects of your life insurance policies:

- Intention -- Why did you originally buy the policies, and have your circumstances changed since then in ways that might change your life insurance needs?
- Ownership and beneficiary designations -- In whose names are the policies titled, and who have you listed as the beneficiaries? Changes in family circumstances often necessitate policy updates in these areas.
- A better deal? -- A life insurance review may reveal opportunities where you could obtain the same amount of coverage for less money, or more coverage for the same premium you're paying now.

Similarly, life insurance experts suggest that there are generally three categories of individuals who may benefit most from a life insurance review:

Young and just starting out: In the case of your untimely death, life insurance can help your family meet short-term needs such as paying funeral expenses, medical bills, legal fees, and any outstanding debts you may have left behind. Over the long term, insurance proceeds can be used for ongoing priorities, such as rent or mortgage payments, child care, routine household expenses, and education expenses. Generally speaking, life insurance is cheaper and more easily obtained at younger ages.

The middle years/empty-nesters: It's a common misconception that only people with young children and no savings need life insurance. Even if your children are grown up and financially self-reliant, life insurance may still be an important part of your financial strategy. A widow, widower, other loved one could be reliant on financial support from you. Also, life insurance can help you accomplish a number of estate planning goals.

Business owners: The loss of a key employee, such as a chief executive, can be devastating to small businesses. For this reason, life insurance is commonly employed as the funding mechanism in "buy-sell" agreements -- legal arrangements providing for an orderly transfer of ownership interests -- and to compensate for the loss of critical personnel. Life insurance can also be used as a supplemental benefit to retain or attract key employees and executives.

Contact your financial advisor to conduct an annual insurance review or to learn more about the uses and benefits of life insurance at every stage of life.

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Identity Theft and Taxes

Protect your personal information especially your Social Security number from identity thieves.

Identity theft is one of the fastest growing crimes in America affecting millions of unsuspecting individuals each year. A dishonest person who has your Social Security number can use it to obtain tax and other financial and personal information about you.

Identity thieves can get your Social Security number by:

- Stealing wallets, purses, and your mail.
- Stealing personal information you provide to an unsecured website, from business or personnel records at work, and from your home.
- Rummaging through your trash, the trash of businesses, and public trash dumps for personal data.
- Posing by phone or email as someone who legitimately needs information about you, such as employers or landlords.

Tax-related identity theft occurs when a thief uses your Social Security number to file a tax return and claim a fraudulent tax refund. In 2015 alone, the IRS stopped 1.4 million confirmed identity theft tax returns, protecting $8.7 billion in taxpayer refunds.[1] The IRS has become increasingly diligent in its efforts to thwart identity theft with a program of prevention, detection, and victim assistance. The "Taxes. Security. Together." program is aimed at building awareness among taxpayers about the need to protect personal data when conducting business online and in the real world.

Stay Vigilant

By remaining vigilant and following a few commonsense guidelines, you can support the IRS in keeping your personal information safe. Here are a few tips to consider:

- Protect your information. Keep your Social Security card and any other documents that show your Social Security number in a safe place.
- DO NOT routinely carry your Social Security card or other documents that display your number.
- Monitor your email. Be on the lookout for phishing scams, particularly those that appear to come from a trusted source such as a credit card company, bank, retailer, or even the IRS. Many of these emails will direct you to a phony website that will ask you to input sensitive data, such as your account numbers, passwords, and Social Security number.
- Safeguard your computer. Make sure your computer is equipped with firewalls and up-to-date anti-virus protections. Security software should always be turned on and set to update automatically. Encrypt sensitive files such as tax records you store on your computer. Use strong passwords and change them routinely.
- Be alert to suspicious phone calls. The IRS will never call you threatening a lawsuit or demanding an immediate payment for past due taxes. The normal mode of communication from the IRS is a letter sent via the U.S. postal service.
- Be careful when banking or shopping online. Be sure to use websites that protect your financial information with encryption, particularly if you are using a public wireless network via a smartphone. Sites that are encrypted start with "https." The "s" stands for secure.
- Google yourself. See what information is available about you online. Be sure to check other search engines, such as Yahoo and Bing. This will help you identify potential theft sources and will also help you maintain your reputation.

Fear You Have Been Scammed?

If you feel you are the victim of tax-related identity theft - e.g., you cannot file your tax return because one was already filed using your Social Security number - there are several steps you should take.

- File your taxes the old-fashioned way -- on paper via the U.S. postal service.
- Print an IRS Form 14039 Identity Theft Affidavit from the IRS website and include it with your tax return.
- File a consumer complaint with the Federal Trade Commission (FTC).
- Contact one of the three national credit reporting agencies -- Experian, Transunion, or Equifax and request that a fraud alert be placed on your account.

If you have been confirmed as a tax-related identity theft victim, the IRS may issue you a special PIN that you will use when e-filing your taxes. You will receive a new PIN each year.

For more information on tax-related identity theft visit the IRS website, which has a special section devoted to the topic.

[1] *The Internal Revenue Service, "How Identity Theft Can Affect Your Taxes," IRS Summertime Tax Tip 2016-16, August 8, 2016.*

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