YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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With autumn around the corner, many municipal bond participants are wondering if the high prices are poised to drop, much like the fall leaves.

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Talking about money matters with family is never easy -- especially when an adult child needs to ask aging parents some sensitive, but necessary, questions.

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Earlier this year, Congress passed a bill to overturn an Obama-era rule that would limit what Internet service providers (ISPs) could do with personal user data that is collected online. The legislation raises questions and concerns about how consumers will be affected and what individuals might do to protect their privacy.

Flood Insurance: Four Questions to Ask Before You Buy

Floods are one of the leading causes of property damage in the United States. Flood insurance is generally offered not through homeowners policies but through the government-run National Flood Insurance Program (NFIP).

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Key Takeaways

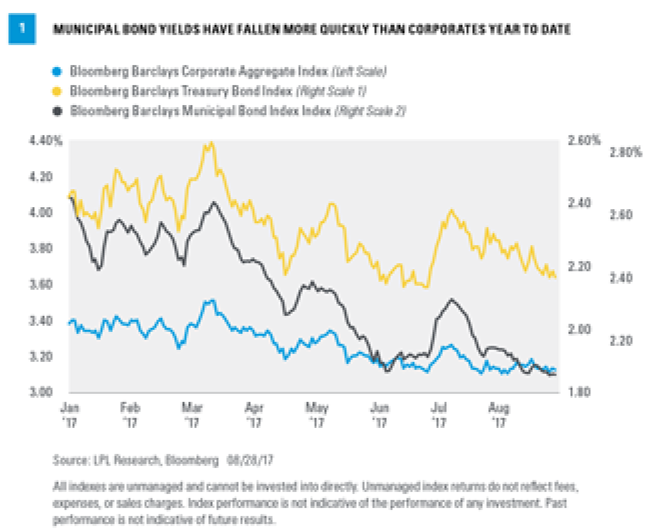
- Municipal bonds have performed well in 2017, but increased seasonal supply this fall may be an impending headwind.
- Valuations are stretched--evident by taxable equivalent yields and ratio analysis.
- Despite higher prices, investment-grade municipal bonds can offer a tax-advantaged way to potentially increase credit quality and diversify portfolios.

Will Munis Fall With the Leaves?

With autumn around the corner, many municipal bond participants are wondering if the high prices are poised to drop, much like the fall leaves. Thus far in 2017, municipal bonds have performed well, and as such, valuations are beginning to look stretched with higher prices and new issue supply expected to increase. Additionally, the threat of a budget impasse in September looms if Congress doesn't extend the debt ceiling and reach a 2018 budget agreement, which could weigh heavily on fixed income markets. Despite all of these factors, we continue to view municipals favorably, but there may be a better entry point after the new issue supply and the leaves have fallen.

YIELDS HAVE DECLINED, PRICES HAVE RISEN

Cheaper prices enticed buyers back into municipals at the beginning of the year, following a substantial sell-off in late 2016. The rally in prices can be seen by comparing the yield for the Bloomberg Barclays Municipal Bond Index against the Bloomberg Barclays Corporate Aggregate and Bloomberg Barclays Treasury Bond indexes [Figure 1]. Starting the year at 2.65%, the municipal index yield is now lower by 65 basis points (0.65%) at 2.09%, while the corporate index fell 26 basis points (3.37% to 3.11%), and the Treasury index lost 27 basis points (2.44% to 2.17%). When yields fall, prices rise (and vice versa), so the larger drop in municipal yields indicates stronger year-to-date performance.



RECENT PERFORMANCE HAS BEEN SOLID

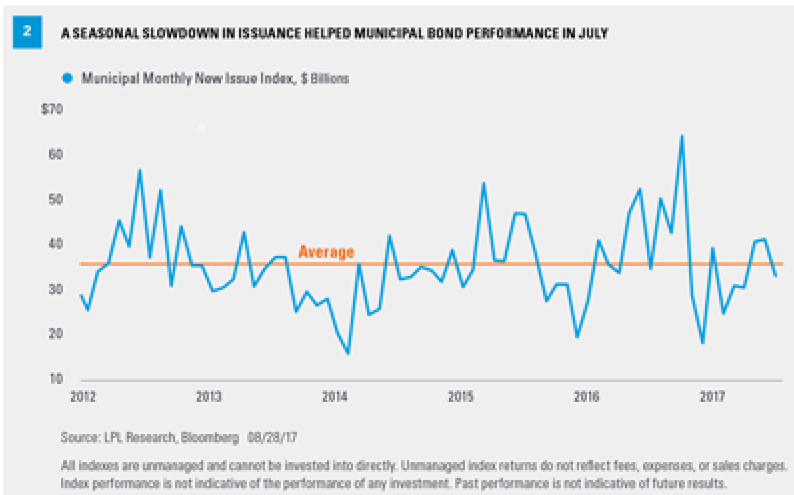
The Bloomberg Barclays Municipal Bond Index has posted a total return of 0.66% this month (as of August 29, 2017) and 5.09% thus far this year. This is a slight rebound from return levels earlier in the summer. June is typically a heavy coupon reinvestment period when many interest rate payments are received and reinvested back into the bond market, thus driving the demand higher later in the season. Generally, when demand outpaces supply, prices rise and performance improves. Year to date, municipals are beating the Bloomberg Barclays U.S. Aggregate Bond Index, an index comprised of high-quality mortgage-backed bonds, U.S. Treasuries, and investment-grade corporates, by 1.65% (5.09% versus 3.44%).

…BUT RELATIVE VALUATIONS ARE STRETCHED

Municipal bond investors often pay a higher price (and receive less yield) for the added potential benefit of the tax-free income they receive. Generally, when municipal prices are below comparable taxable bond prices, municipal bonds are said to be cheap. Another way to compare relative value is to look at the ratio of municipal bond yields to similarly dated Treasury bond yields, where higher ratios represent cheaper relative valuations. Historically, using Bloomberg pricing data, a 5-year ratio above 75%, a 10-year ratio above 85%, and a 30-year ratio above 95%, are thought to represent value. Currently, the 5-year ratio is 65%, which is well below the historic average of 90% (2001-2017), pointing to rich valuations in this part of the yield curve. The 10-year ratio is 86%, above the historic average, but more expensive than the 5-year average of 97.2%. The 30-year ratio is now at 100%, also above its historic level, but expensive compared to the 5-year average of 103%. Together, these indicate that relative valuations have become somewhat stretched. (Note that the ratio figures may differ depending on the data source used.)

BOND SUPPLY

In addition to ratios showing that municipals are slightly expensive, new issue supply may be growing. The supply of new bonds priced in the market also affects the relative value of municipals. July's issuance of $33 billion was below the 10-year monthly average of $36 billion according to the Municipal Monthly New Issue Index, which caused price strength in the market. Historically, demand increases and supply tends to shrink between July and August [Figure 2]. However, issuers can take advantage of bonds' higher prices and issue after the summer months, which could lead to price weakness.



CONCLUSION

Investment-grade and high-yield municipals have performed well so far this year. We do not expect a second half sell-off like last year, but supply is historically heavier after the summer months and inflows are expected to decrease based on seasonal trends. These factors could contribute to some market weakness in the near term. Tax-free yields relative to taxable U.S. Treasuries are lower than in early 2017, which may cause investors to look to other fixed income sectors for additional yield. While a better entry point may be ahead, we continue to favor investment-grade municipal bonds in a portfolio context for appropriate investors, as they offer very little correlation to stocks and can be used to potentially increase credit quality and diversify portfolios.

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.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not ensure against market risk.

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.

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.

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

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.

Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings, and risk.

INDEX DEFINITIONS

The Bloomberg Barclays Municipal Bond Index is a market capitalization-weighted index of investment-grade municipal bonds with maturities of at least one year.

The Bloomberg Barclays US Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The Bloomberg 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. Bloomberg Barclay's U.S. Treasury Index includes public debt of the U.S. Treasury with a remaining maturity of one year or more.

The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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A durable power of attorney is a legal document that designates an individual to make financial or legal decisions on behalf of another individual. This document can become very important should an aging senior become ill or incapacitated.

Talking Finances With Aging Parents

Regardless of whether you and your parents have always talked freely about money or have never discussed the subject, there are several considerations you may want to address with them as they grow older. These six questions may help you think about -- and plan for -- that conversation.

1. Have you thought about how you will approach the subject? When you do decide to touch base, tactfully make clear what you'd like to discuss, but also let your parents know you respect their privacy.

2. Are you confident that they are staying on top of things? Are bills getting paid on time? Are investments being monitored? Maybe you have already raised these topics with your parents, but it has been a while since you've checked in. If you think they might appreciate a follow-up, then it may be a good idea to talk to them again.

3. Are they taking advantage of banking conveniences, such as direct deposit and online bill payment, to simplify their financial life? If your parents aren't comfortable with the computer, offer to assist.

4. Do your parents have an estate plan, and is it up to date? At a minimum, they should have a will. An effective will should do a few basic things. It should name an executor (or personal representative) -- the individual who will administer your estate after death. It should also spell out how you want your property distributed as specifically as possible. If you die without a will, your estate will be divided according to the laws of your state -- not your wishes. Besides a will, there are other planning mechanisms that may be appropriate for their needs. Be sure they consult with a qualified legal professional to discuss the specifics of their situation.

5. Do you and your parents understand the potential benefits of a durable power of attorney document? A durable power of attorney is a legal document that designates an individual to make financial or legal decisions on behalf of another individual. This document can become very important should an aging senior become ill or incapacitated.

6. Should they consider a long-term care insurance policy? With the average cost of a private room in a nursing home now exceeding $92,300 per year depending on where you live, you can see how such expenses could put a tremendous financial strain on a family.[1] That is why many people consider long-term care insurance to be a sensible addition to a financial plan. For the most part, nursing home and assisted-living costs have limited coverage under Medicare. And, for most people, qualifying for Medicaid requires individuals to first exhaust their own assets. For more information about long-term care insurance, speak with your financial advisor.

[1]*Genworth 2016 Cost of Care Survey, April 2016.*

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While inflation has been a constant fact of life in the U.S. economy, it can be particularly damaging to retirees, many of whom are living on fixed incomes.

Inflation -- The Subtle Thief of Your Purchasing Power

American workers are laboring as diligently as ever, but they have little extra to show for their effort. Combine meager pay increases with the slow but steady effects of inflation, and it is easy to see how families are barely breaking even.

Workers have been receiving, on average, 2% pay increases for the past three years.[1] But when you adjust that increase for inflation, what's left is negligible. In April of this year, for instance, inflation-adjusted earnings rose just 0.3% from the previous year. In April 2016, wages rose 1.2% annually after inflation, and in 2015 that figure was double -- at 2.4% -- thanks to near-zero increases in the cost of consumer goods and services at that time.[1]

Ramping Up?

While inflation rose 2.2% for the 12 months ending in April, policymakers at the Federal Reserve -- the nation's central bank and overseer of our monetary system -- expect price increases to level off at the Fed's annual inflation target of about 2%. Still, with wages following a similar trajectory, workers are left feeling the squeeze in their wallets, despite bigger pay days.

Follow the CPI

The most common measure of inflation is the Consumer Price Index, or CPI. The CPI is based on a monthly survey by the U.S. Bureau of Labor Statistics. It compares current and past prices on a "basket" of common expense categories, including housing, transportation, and clothing.

While inflation has been a constant fact of life in the U.S. economy, it can be particularly damaging to retirees, many of whom are living on fixed incomes. For many, Social Security is the only retirement income that increases through cost-of-living adjustments (COLAs) to reflect any increase in the cost of living as measured by the CPI.

It may be easy to overlook inflation when preparing for your financial future. After all, an inflation rate of just 2% to 3% -- which we have been experiencing for the past several decades -- may not seem worth noting, until you consider the impact it can have on your purchasing power over the long term.

Consider that at just a 3% inflation rate, a $100,000 nest egg today would be worth only $74,409 in today's dollars 10 years from now, $55,368 in 20 years, and $41,199 in 30 years.

As you can see from this example, the further away you are from retirement, the more potential inflation has to erode your future purchasing power, and the more important it is for you to choose investments that can potentially help you stay ahead of inflation.

Talk with your financial advisor to learn more about managing the impact of inflation on your investments.

[1]*The Wall Street Journal, "Don't Feel That Pay Raise? Blame Inflation," May 12, 2017.*

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When on the Internet, You May Never Really Be Alone

Congresss action levels the playing field between ISPs, such as AT&T, Verizon, and Comcast, and Internet companies, such as Google and Facebook.

Congress has given Internet service providers (ISPs) greater freedom to use browsing activity to target advertisements and promotions at customers. The legislation (signed by President Trump on April 3) nullifies a rule that would have forced ISPs to ask for permission before tracking customers and selling their information to advertisers. The now-cancelled rule would also have required ISPs to step-up security measures to help prevent large-scale data breaches similar to those suffered in recent years by Yahoo, Target, and many others.

What's at Stake?

Congress's action levels the playing field between ISPs, such as AT&T, Verizon, and Comcast, and Internet companies, such as Google and Facebook. Historically, Internet companies have had much greater freedom than ISPs with their users' data.

Internet companies have long been collecting and using individuals' personal data to target ads at them. That's why, for example, when you research a particular vacation destination you become much more likely to see travel ads and promotions related to that destination. Now ISPs will most likely be doing more of the same.

Protecting Your Privacy

Many web browsers today have settings that allow you to conceal at least part of your web browsing activity. They can block cookies and limit websites' access to your browsing history. But web trackers are developing more sophisticated tools to monitor consumers' activity, so they can often track you even if there are no cookies to detect.

With that in mind, here are a few suggestions that could potentially help strengthen your privacy practices:

- Consider using a virtual private network (VPN) service. A VPN creates a secure, encrypted connection for data leaving your device that makes it difficult for third parties such as ISPs to monitor the content of the traffic.
- Standard ad industry opt-outs can be effective for declining ads targeted based on web surfing. If you see a triangle "I" on a banner ad, the company is offering you an opt-out.
- "Do Not Track" feature -- Web browsers may include some type of Do Not Track setting that lets you tell websites you visit, their advertisers, and content providers that you don't want your browsing behavior tracked. Selecting this setting does not guarantee that the websites you visit will honor your request. It just lets them know of your wishes.
- Use the "Limit Ad Tracking" feature on your smartphone. Generally these types of settings help users to opt out of targeted ads, but again, there is no guarantee that your data will remain private.

Finally, remember that you may have two ISPs, the company that provides broadband in your home and the company that provides wireless service to your smartphone. You should contact both of them to ask about the types of data they collect. Also ask what their procedures are for opting out of ad-targeting programs.

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Flood Insurance: Four Questions to Ask Before You Buy

As countless property owners have learned the hard way, if you live in a flood-prone area, the waters are likely to rise at some point -- and the longer you live there, the greater the chance you'll experience a flood.

It's an all-season concern. Winter snow melt, spring rains, and summer storms can mean leaky roofs and windows -- or worse yet, flooding. In fact, flooding is a leading cause of property loss. But, like earthquakes, flooding is typically not covered under a standard homeowners policy. To insure against floods, you must purchase special flood insurance, generally offered only through the government-run National Flood Insurance Program (NFIP).

Whether flood insurance is right for you will depend upon a number of factors. Ask yourself these four questions.

1. Is it available? Contrary to popular belief, flood insurance is not restricted to properties located in flood-prone areas like beaches or river fronts. It is generally available in communities that adopt and enforce what Federal Emergency Management Agency (FEMA) considers sound floodplain-management practices. To find out whether your community participates in the flood insurance program, contact your local government or one of the resources provided by the NFIP.

2. Do you need it? As countless property owners have learned the hard way, if you live in a flood-prone area, the waters are likely to rise at some point -- and the longer you live there, the greater the chance you'll experience a flood. You may want to hedge your bets and consider flood insurance long before a hurricane or major storm is on the way. While homeowners insurance may cover certain types of water damage, wind-driven rain, a broken water pipe that floods the cellar and first floor, damage caused by a river that flows over its banks, or storm waves that surge over the coastline usually won't be covered by homeowners or property-owners insurance. That's where flood insurance kicks in.

3. What does flood insurance cover? Although you can buy flood insurance through your insurance agent, the policy and coverage generally come from the NFIP. See below for details of coverage.

4. How much does it cost? According to FEMA, the average premium under the NFIP now runs about $878 per year. And that does not include various surcharges, which can bring the average up to over $1,000. Premiums rose 6.3% last year on average, but some properties saw larger increases, especially for certain properties such as second homes and properties that have experienced multiple flood claims.[1] Keep in mind that these are average figures. As with standard home insurance policies, premiums will depend on your deductible and the value of the property being insured.

What's Generally Covered[2]

<u>Building Coverage</u>

- The insured building and its foundation
- The electrical and plumbing systems
- Central air-conditioning equipment, furnaces, and water heaters
- Refrigerators, cooking stoves, and built-in appliances such as dishwashers
- Permanently installed carpeting over an unfinished floor
- Permanently installed paneling, wallboard, bookcases, and cabinets
- Window blinds
- Debris removal
- A detached garage (up to 10 percent of Building Property coverage); detached buildings (other than detached garages) require a separate Building Property policy

<u>Personal Property Coverage</u>

- Personal belongings such as clothing, furniture, and electronic equipment
- Curtains
- Portable and window air conditioners
- Portable microwave ovens and portable dishwashers
- Carpets not included in building coverage (see above)
- Clothes washers and dryers
- Food freezers and the food in them
- Certain valuable items such as original artwork and furs (up to $2,500)

What's Not[2]

- Damage caused by moisture, mildew, or mold that could have been avoided by the

- property owner
- Currency, precious metals, and valuable papers such as stock certificates
- Property and belongings outside of a building such as trees, plants, wells, septic systems, walks, decks, patios, fences, seawalls, hot tubs, and swimming pools
- Living expenses such as temporary housing
- Financial losses caused by business interruption or loss of use of insured property
- Most self-propelled vehicles such as cars, including their parts

For more information about the NFIP, contact FEMA.

[1]*FEMA, Program Changes, April 2017.*

[2]FEMA, *National Flood Insurance Program, Summary of Coverage*, November 2012.

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