Clear Financial Group

YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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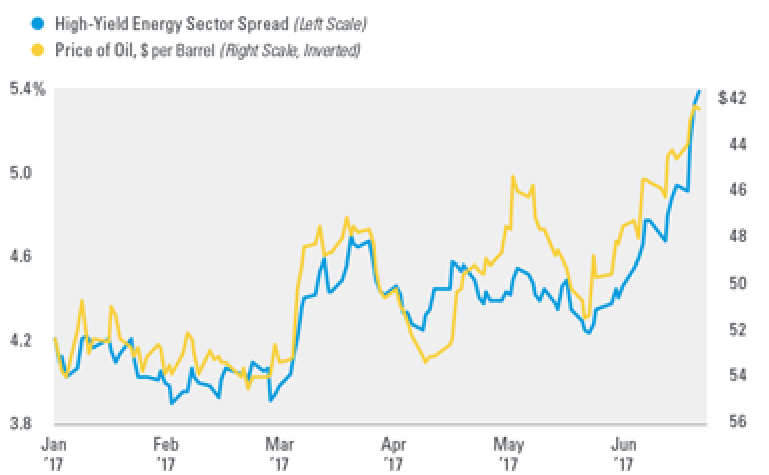
Highlights

- Oil's recent weakness has led to a challenging month for the high-yield energy sector, as the sector's sensitivity to oil has returned after decoupling for much of the year.
- Thus far, the spillover to other sectors has been limited, but the situation has put some pressure on high yield overall.
- Fundamentals for high yield remain positive, but the situation must be monitored for deterioration going forward.

High Yield: The Return of Oil Sensitivity

The month of June has not been good for oil with signs of concern emerging in the high-yield energy sector. The situation remains relatively well contained to the sector and spillover has been limited, but requires close watch for ongoing deterioration. High yield and high-yield energy remained relatively resistant to oil's move lower in early May, but recent weakness below the $45 per barrel level has brought the high-yield energy sector along for the ride. High-yield energy bonds' spread over comparable Treasuries widened on mounting concerns about sector weakness, given lower oil prices [Figure 1]. Oil's decline over the last month from $51 on May 22, to $43 on June 22, has led to a -3.8% total return for high-yield energy over the same period based on Bloomberg Barclays High Yield Energy Total Return Index performance. That is the sector's largest month-over-month decline since the end of oil's initial decline in February 2016.

1 OIL'S DECLINE HAS PUSHED HIGH-YIELD ENERGY SPREADS HIGHER

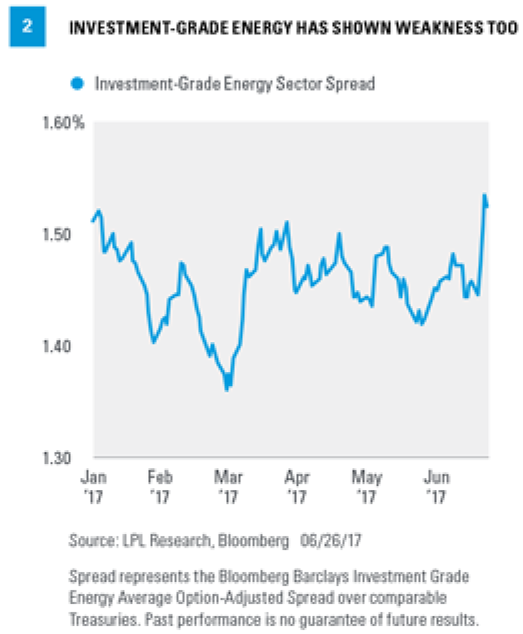


Source: LPL Research, Bloomberg 06/26/17

Spread represents the Bloomberg Barclays High Yield Energy Average Option-Adjusted Spread over comparable Treasuries. Past performance is no guarantee of future results.

HOW BIG IS THE PROBLEM?

The collapse in oil from a high of over $107 per barrel on June 20, 2014 to just over $26 on February 11, 2016 prompted an industry shakeup in the domestic oil market. Many weaker producers, those less capitalized or those with higher marginal costs of production, were forced into default. This caused pain in the market, and weakness and losses in high yield overall, but the silver lining was a stronger industry with more resilient producers. High-yield energy's weight within high yield was 14.9% in June 2014, immediately prior to oil's large price decline. That weight bottomed with the price of oil to 9.7% of the market in mid-February 2016, and has since recovered to 12.9% as of June 23, 2017. That resiliency is being tested as of late, with high-yield energy sector weakness pronounced enough to create caution in the overall high-yield market. In fact, the caution is strong enough to create concern even in the investment-grade energy sector, with spreads now at a year-to-date high [Figure 2].



THE GOOD NEWS…

Since reaching a low in early 2016, the recovery of oil prices has given many energy firms the ability to refinance their debt or issue new debt throughout 2017 at historically low borrowing costs. Many of these companies can now go years without tapping debt markets again, allowing them to withstand temporary weakness in the price of oil as they may not have been able to do just two years ago as oil slid. As is common across commodity production industries, many firms have hedged themselves and effectively locked in the price that they will receive for some of their future production.

…AND THE RELATED BAD NEWS

Regardless of whether firms are hedged or not, one thing remains true: domestic producers will continue to produce oil, as they need the revenue to pay the interest payments on existing debt. There are other factors that encourage production as well, like the costs associated with starting and stopping production on existing wells. So even if a producer is taking a marginal loss on each barrel produced, they will continue to do so out of necessity. One negative effect of this is that as a now important oil producer in the global market, our domestic producers' commitment to production will result in continued supply, making it difficult for the price of oil to recover through supply and demand dynamics alone. Therefore, regardless of whether the Organization of Petroleum Exporting Countries can continue to cut output to try to limit supply and raise prices, our freshly capitalized domestic oil industry makes it much more difficult to achieve than before the U.S. shale revolution over the last five years.

GOING FORWARD

As we have reiterated in *Bond Market Perspectives* pieces throughout the year, high yield remains fundamentally sound, but expensive valuations warrant caution, as the market remains susceptible to pullbacks in equity and/or oil. Despite high yield's decoupling with oil in late 2016 and early 2017, we maintained our belief that oil remains an important driver of high-yield markets. The recent events in the market help to explain why. While some fluctuation in the price of oil is natural and expected by markets without major flow through to spread levels, a decline below certain levels or a perceived change in supply and demand characteristics can have sudden and profound effects on the market. Despite the solid fundamentals we saw in terms of lending standards (outlined in our recent *Bond Market Perspectives*), the market was "priced for perfection," with the decline in defaults expected in 2017 already fully priced into the market.

CONCLUSION

Price action in oil and its effect on high-yield energy spreads and returns indicates that despite decoupling over certain periods, the two remain correlated. Investors should be aware of the ongoing risks to high-yield energy, and perhaps the spillover into the broader high-yield market. Even considering recent weakness, we still judge the high-yield market to be slightly richly valued. Spreads at current levels may not compensate investors for future risks. Balancing this with lending standards data providing fundamental support for the market, and the problem not yet spilling over into high-yield ex-energy, we remain neutral on the asset class overall.

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.

Because of their narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

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.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The fast price swings in commodities will result in significant volatility in an investor's holdings.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

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 High-Yield Bond Index is an unmanaged index of corporate bonds rated below investment grade by Moody's, S&P or Fitch Investor Service. The index also includes bonds not rated by the ratings agencies.

Bloomberg Barclays High Yield Energy Total Return Index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

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Talking Finances With Aging Parents

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.

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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Investing for Retirement: A Marathon, Not a Sprint

Successful investors often begin putting money into an investment account as soon as they start working. If you began investing in your 20s, you may be well on your way to a comfortable retirement.

Let's face it: You can't fund a 20-year retirement in just five years. Investing for retirement takes time, and success requires that you start early and invest appropriately at each stage of your life.

The Early Bird

Successful investors often begin putting money into an investment account as soon as they start working. If you began investing in your 20s, you may be well on your way to a comfortable retirement. By starting to save at the beginning of your career, you have many years to reap the potential benefits of compounding -- the continuing reinvestment of investment earnings. If you're eligible to contribute to a tax-qualified retirement plan at work, you also have the potential advantage of tax-deferred growth of your account assets. And, if your employer matches employee contributions, you'll enjoy the added benefit of "free" money.

When you're just starting out in the work force, you have an important advantage: time. Even though some of your savings may be earmarked for shorter-term goals, such as a down payment on a house or a child's education, your long time horizon for retirement means you may be able to take more risk with your investments. During these early years, you may want to allocate more of your portfolio to investments that have the potential for growth over the long term, such as stocks and stock mutual funds.[1]

Time Is on Your Side

By the time you reach your 30s and 40s, you may have been saving for retirement for several years through your employer's retirement plan, your own individual retirement account, other investments, or a combination of the above. The middle years, when you're generally well-established in your career, are critical to the growth of your retirement assets. Consider contributing the maximum amount you can afford -- or at least as much as your employer will match -- to your account. Now may be the perfect time to increase your contributions.

Maximum growth of your assets should be your goal during the middle years. Since you probably still have quite a few years before you retire, you may want to continue to keep a portion of your portfolio invested in securities, such as stocks, with the potential for higher returns. Historically, over the long term, stocks have always recovered from any decline in value and generally offer the best inflation protection of any investment.[2] However, only you can determine how much investment risk you're comfortable with.

The Home Stretch

By your 50s and 60s, you may have considerable assets in your retirement account. As you get nearer to retirement, you may be concerned with protecting your assets from loss. If you've allocated a sizeable portion of your portfolio to riskier investments such as stocks, you may want to preserve your gains by moving some of your money into potentially less volatile investment types. Your tolerance for risk will help you determine the percentage of your account to allocate to lower risk investments, such as bonds and money market funds.[3]

Stock market fluctuations are not the only risk to your retirement funds. Even modest inflation can significantly reduce your nest egg's buying power in the future. Your savings may have to fund a retirement that lasts for 15, 20, or 30 years. For this reason, during your remaining working years -- and after retirement -- you may want to keep at least a portion of your portfolio invested in stocks, which historically have outpaced inflation.

Your financial professional can help you design an appropriate investment strategy for each stage of your life.

[1] *Investing in stocks involves risks, including loss of principal. 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] *Past performance is no guarantee of future performance.*

[3] *An investment in a money market fund is not insured nor guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund.*

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Profit Sharing Plans: A Win-Win Benefit for Your Business

With a profit sharing plan, the employer benefits because contributions to the plan are deductible (as long as the relevant tax law requirements are met).

What can you do to keep your workforce satisfied? Experts admit that keeping personnel content can be difficult even in the best of economic times. Convincing them that they have a direct impact on the business, and making sure that they share in its success -- which, after all, depends on them -- are ways to encourage and reward employees. Over the years, business owners have learned that one of the most effective ways to accomplish these goals is through the use of a profit sharing retirement plan.

Profit sharing plans offer benefits for both employees and employers. Under a typical plan, the employer makes contributions from profits to plan accounts established for individual employees. The amount of the contributions is based on the level of profits for a given year. When they retire, employees are entitled to the profit sharing contributions along with any account earnings that have accumulated over the years. It is not unusual for a profit sharing plan to be coupled with a 401(k) salary deferral plan. This allows employees to make tax-favored contributions of their own to the plan, which potentially helps them build up even more retirement funds for the future.

In general -- and especially in times of economic uncertainty -- a small or fledgling business may be hesitant to set up an employee retirement plan that will require contributions to be made every year. With a profit sharing plan, there is no such requirement. The employer is able to choose, based on how the business has done in a particular year, whether to make a contribution to the plan. If the business is not in a financial position to contribute to the plan, no contribution is required. Or, an employer might decide to reduce the size of the contribution he or she had hoped to make. A profit sharing plan offers this flexibility.

With a profit sharing plan, the employer benefits because contributions to the plan are deductible (as long as the relevant tax law requirements are met). The sponsoring employer also benefits because employees realize that their employer has made a commitment to them. They feel they have a stake in the business, which can improve morale and even reduce employee turnover. Long term, that can boost the business' profitability, too.

A profit sharing plan is established for the exclusive benefit of employees or their beneficiaries and must not discriminate in favor of highly compensated employees. Certain requirements regarding coverage and the eligibility of employees to participate must also be met.

Employees reap various benefits in addition to the potential build-up of retirement funds. One benefit is the tax advantage that comes with a profit sharing plan. Contributions made to such a plan are generally not taxable until employees receive distributions from the plan when they retire (or under certain other conditions). Plan earnings are also not taxable while they are held by the plan. And an owner-employee can benefit the same as other employees, as long as the tax law's nondiscrimination rules are followed.

If you would like to look into the potential benefits of a profit sharing plan -- for your employees and your business -- contact your retirement plan advisor.

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Implicit in the ERISA guidelines is the need for sponsors to monitor all investment options, not just company stock.

Understanding Your Fiduciary Responsibilities: An ERISA Primer

Regulatory complexity and increased scrutiny on compliance arguably has made the task of retirement plan fiduciaries harder today than ever before. Many employers and their delegates may not have a full understanding of their roles and responsibilities to the plan and its participants. For those newly stepping into a role of plan governance or for those who need a refresher on how their plan should be administered, here is an overview of key considerations.

ERISA: The Letters of the Law

Qualified workplace retirement plans -- such as 401(k) plans -- are governed by the Employee Retirement Income Security Act (ERISA). ERISA mandates that a plan fiduciary must fulfill four primary responsibilities:

1. To act solely in the interests of plan participants and beneficiaries.
2. To do so with the care, skill, and diligence characteristic of a "prudent" person familiar with such matters.
3. To diversify plan investments, with exceptions for investments in company stock.
4. To comply with the written plan document.

Focus on Investments

Implicit in the ERISA guidelines is the need for sponsors to monitor all investment options, not just company stock. While ERISA does not specifically define what type of monitoring practices should be employed, many experts recommend that plan fiduciaries review each investment option at least once per quarter to make sure that it remains a potentially appropriate option for participant contributions. Details of such monitoring procedures should be spelled out in the plan's investment policy documents.

The ongoing review should typically resemble the process employed for investment selection and take into account the following considerations.

- A comparison of recent and rolling performance data, relative to an appropriate peer group and industry index.
- A comparison of fees and expenses, relative to an appropriate peer group.
- An assessment of risk-adjusted performance, relative to an appropriate peer group.
- The significance of changes to a portfolio management team.
- The significance of changes to investment strategy (e.g., has style drift occurred?).
- Whether investment options offered by the plan complement the plan's stated investment strategy.
- Whether there has been a significant increase or decrease in the plan's fees and/or assets under management.

Of course, these initiatives may prove relatively useless in court if they remain undocumented. For that reason, the individuals or committees responsible for such tasks should make every effort to keep detailed minutes of their discussions and decisions.

Make Participant Communication a Priority

In addition to "back office" oversight, plan sponsors are also advised to communicate clearly, honestly, and frequently with plan participants. Under normal circumstances, those communications might address a wide array of topics -- such as how the plan works, how to calculate a savings goal, and how to arrive at realistic investment expectations -- as well as basic educational themes, such as understanding asset allocation and investment risk.

But when volatility negatively influences the value of specific investment options -- particularly employer stock -- it may be appropriate to issue a message from company management explaining the current situation and reinforcing the need to maintain a long-term, diversified investment strategy.[1]

Keep in mind that a company cannot give participants more information about a specific security than they would be allowed to give to other shareholders. Also, make sure that participant communications do not contain any information that could be perceived as erroneous, inconsistent, or promissory in nature.

The information in this article is not intended as legal or tax advice. You should consult with a financial professional and ERISA counsel to help determine your unique situation and needs.

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

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