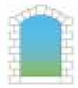

YOUR FINANCIAL FUTURE

Your Guide to Life Planning

November 2015

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An insurance review is a necessary -- yet often overlooked -- aspect of your long-term financial plan. Be sure to review your various coverages on a regular basis.

KEY TAKEAWAYS

- High-quality U.S. bonds continue to feel the push and pull of global central banks.
- This week's FOMC meeting is largely expected to be a non-event, but the post-meeting statement will be important.
- Until a conclusive change from central banks arises, the low-return, range-bound environment will likely persist in the bond market.

CENTRAL BANK TUG-OF-WAR

As the Federal Reserve (Fed) inches closer to an eventual rate increase, the majority of global central banks are taking the opposite tack and cutting rates or easing policy. High-quality U.S. bonds continue to feel the push and pull of global central banks. Last week both the European Central Bank (ECB) and People's Bank of China (PBOC) suggested or announced market-friendly measures that boosted stocks at the expense of mild Treasury weakness. The ECB hinted strongly that bond purchases may be expanded and interest rates may be cut into negative territory, while the PBOC announced its fifth rate cut and additional easing measures. Both moves intend to spur better economic growth. This week it's the Fed's turn, but the Federal Open Market Committee (FOMC) meeting is not expected to result in any substantial shift in policy.

MIXED BAG

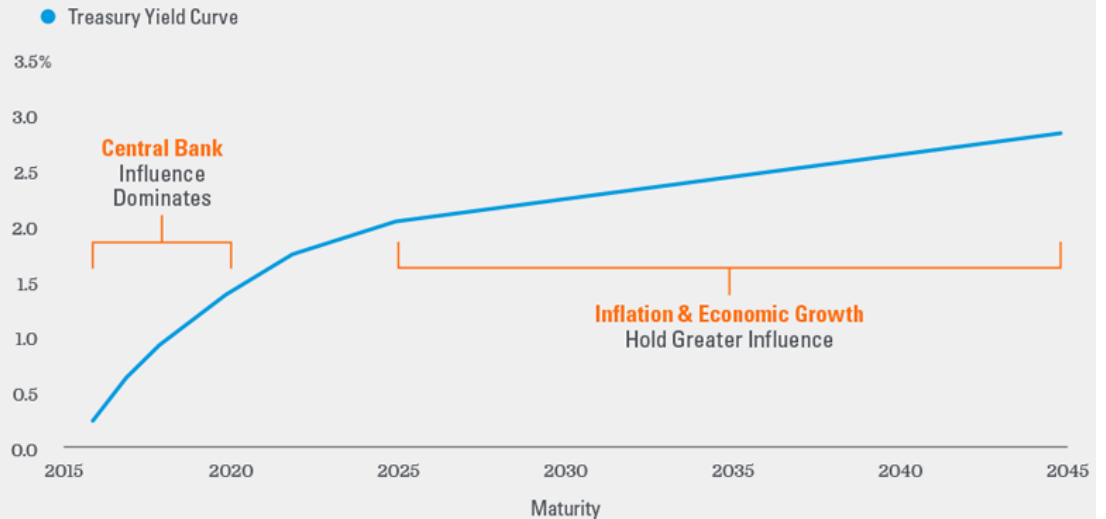
Central bank actions can have a mixed impact on bond markets. The PBOC's action was viewed as necessary and a relief to help offset further deceleration in China's economy; while the ECB hinted at more, cutting bank borrowing rates further into negative territory, and/or expanding ongoing bond purchases. Both types of stimulus--or in the case of the ECB, hinting at stimulus--helped boost economic growth expectations. In response, longer-term bond yields generally increased.

Short-term interest rates are most directly impacted by central bank actions and yield declines were fairly sharp across Europe as a result of the ECB rhetoric. A total of 13 European countries now offer negative government bond yields on maturities up to two years, up from nine countries during the first quarter of 2015. Two-year yields in an additional five countries are below 0.2%. In Switzerland, an investor must look beyond 12-year bonds to find a positive yielding government bond. Another rate cut from the ECB could help anchor short-term bond yields at very low levels, and the hint of such aggressive policy helped lower intermediate- to longer-term yields across Europe.

More economically sensitive, or lower-rated, bond issuers were among the biggest beneficiaries of ECB rhetoric. Bond prices increased most in Italy and Spain, and European high-yield issuers also benefited. In conjunction with the PBOC rate cut, U.S. high-yield bond prices also improved, although gains were limited by weaker oil prices.

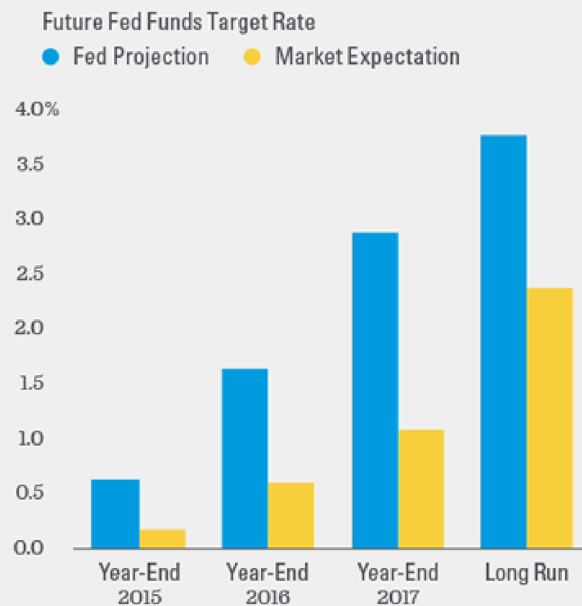
In the U.S., yields increased across the maturity spectrum but for different reasons. Short-term Treasury yields moved higher in anticipation of a first Fed rate hike perhaps coming sooner, as economic growth prospects improve based upon easing by the PBOC and the prospect of additional easing from the ECB. Longer-term 10- and 30-year Treasury yields also moved higher, but more in response to better economic growth and higher inflation that may result from central banks lowering rates.

A view of the current Treasury yield indicates which factors have greater influence over which parts of the yield curve [Figure 1]. Short-term notes and maturities out to 5 years are typically more influenced by where the Fed sets the fed funds target rate, while longer 10- and 30-year maturities are influenced more by growth and inflation. That is not to say the Fed cannot influence longer-term yields. An upward-sloping yield curve reflects the belief that central bank medicine (low rates) will work over time. The Fed can also influence longer-term yields by indicating the potential pace and magnitude of potential interest rate changes, as well as via opinions of the state of the U.S. economy and inflation.



Therein lies the push and pull on Treasury yields. A potential slow pace of rate hikes in the U.S. is likely to push up longer-term yields only gradually, especially considering the headwinds of weaker global growth and central banks that continue to step on the gas in order to perk up their economies.

Market expectations, therefore, continue to push against the Fed's projected path of raising interest rates [Figure 2]. Fed fund futures continue to show a much more benign pace of rate hikes relative to the Fed's latest forecasts released at the conclusion of the meeting on September 17, 2015. Over the past year the Fed's forecasts have moved closer to market expectations and may do so again at the conclusion of the December meeting when a new set of forecasts will be released.



However, this week's meeting contains only a statement release with no press conference or updated forecasts. The Fed meeting is likely to be a non-event, although investors will focus on mentions of China, low inflation, labor markets, and wages as a guide to the latest Fed thinking. Since the September meeting, little has changed, with inflation expectations low and domestic economic data mixed. The Fed will not even have the benefit of another employment report after a disappointing September payrolls report released in early October, and is not likely to voice a strong opinion one way or another in the statement that accompanies the conclusion of this week's meeting.

Nonetheless, Figure 2 also illustrates that a lot of good news about the Fed is already factored into current Treasury prices and yields. This is one reason why the 10-year Treasury yield has stalled around 2% [Figure 3], leaving the market waiting for a conclusive change from central banks either domestically or globally. Until that conclusive change arises, most likely in the form of improved economic data, the low-return, range-bound environment is likely to persist in the bond market.

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.

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

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Marriage and Your Finances

A prenuptial agreement permits couples to keep their finances separate, protect each other from debt, and take actions that could limit the rights of either partner.

Marriage affects your finances in many ways, including your ability to build wealth, plan for retirement, plan your estate, and capitalize on tax and insurance-related benefits. State and federal laws on these subjects provide default positions. Some of these baseline conditions can be modified by a prenuptial agreement, a contract that permits a couple to keep their finances separate, protect each other from debt, and take other actions that could limit the rights of either partner.

Building Wealth

If both you and your spouse are employed, two salaries can be a considerable benefit in building long-term wealth. For example, if both of you have access to employer-sponsored retirement plans and each contributes $18,000 a year to a 401(k), as a couple you are contributing $36,000, far in excess of the maximum contribution of an individual ($18,000 for 2015). Similarly, a working couple may be able to pay a mortgage more easily than a single person can, which may make it possible for a couple to apply a portion of their combined paychecks for family savings or investments.

Retirement Benefits

Some (but not all) pensions provide benefits to widows or widowers following a pensioner's death. When participating in an employer-sponsored retirement plan, married workers are required to name their spouse as beneficiary unless the spouse waives this right in writing. Qualifying widows or widowers may collect Social Security benefits up to a maximum of 50% of the benefit earned by a deceased spouse.

Estate Planning

Married couples may transfer real estate and personal property to a surviving spouse with no federal gift or estate tax consequences until the survivor dies. But surviving spouses do not automatically inherit all assets. Couples who desire to structure their estates in such a way that each spouse is the sole beneficiary of the other need to create wills or other estate planning documents to ensure that their wishes are realized. In the absence of a will, state laws governing disposition of an estate take effect. Also, certain types of trusts, such as qualified terminable interest property (QTIP) trusts and marital deduction trusts, are restricted to married couples.

Tax Planning

Depending on your individual income levels, filing federal income taxes as a married couple may result in higher or lower tax liability as compared with when you each filing singly. Keep in mind that when you are married, you must file as married. Only if you are not married may you file as single or head of household.

Debt Management

In certain circumstances, creditors may be able to attach marital or community property to satisfy the debts of one spouse. Couples wishing to guard against this practice may do so with a prenuptial agreement.

Family Matters

Marriage may enhance a partner's ability to collect financial support, such as alimony, should the relationship dissolve. Although single people do adopt, many adoption agencies show preference for households that include a marital relationship.

The opportunity to go through life with a loving partner may be the greatest benefit of a successful marriage. That said, there are financial and legal benefits that you may want to explore with your partner before tying the knot.

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Millennials: The "Slow and Steady" Generation of Investors

For Millennials, the Great Recession was a wake-up call that investing presents real risks -- and their approach is to take steps to avoid falling foul of that risk even though they have decades of investing ahead of them.

With some $30 trillion poised to change hands over the next several decades from parents and grandparents to so-called Millennials -- those 90-million-plus Americans aged 18 to 33 -- the financial services industry will have its work cut out for it. Popular investing wisdom states that the younger you are, the more time you have to ride out market cycles and therefore the more aggressive and growth-oriented you may be in your investment choices. Yet Millennials are hearing none of it.

As Investors: Wary and Conservative

Indeed living through the Great Recession and watching their parents and other older family members suffer financial losses may have taken a toll on these young investors -- and made them wary of investing in general and conservative in their investment choices. For instance, according to Wealthfront, an online financial services start-up that caters to this demographic group, Millennials "have lived through two market crashes … " and … "value simple, transparent, low-cost services," typically favoring index-based fund options over more exotic investment fare.[1]

Elsewhere, research conducted by MFS Investment Management found that Baby Boomers take a more aggressive approach to retirement investing than the much younger Millennials. Further, each group's selected asset allocation is inconsistent with what financial professionals would consider to be their target asset allocation, given their age and investment time horizon.

For example, Baby Boomers, on average, reported holding retirement portfolio asset allocations of 40% stocks, 14% bonds, and 21% cash, while Millennials allocated less than 30% of their retirement assets to stocks, and had larger allocations to bonds and cash than their much older counterparts -- 17% and 23% respectively.[2,3]

Further, when asked about their retirement savings priorities, 32% of Baby Boomers cited "maximizing growth" as the most important objective, while two-thirds of Millennials cited conservative objectives for their retirement assets -- specifically, 31% said "generating income" was a top concern and 29% cited "protecting capital" as their main retirement savings goal.[3]

Perception Is Reality

The study's sponsors infer that the seemingly out-of-synch responses from survey participants reflect each group's reactions -- and perhaps overreactions -- to the recent financial crisis. For Baby Boomers, the loss of retirement assets brought on by the Great Recession has made them more aggressive in their attempts to earn back what they lost. Fully half of this group reported being concerned about being able to retire when they originally planned. For Millennials, the Great Recession was a wake-up call that investing presents real risks -- and their approach is to take steps to avoid falling foul of that risk even though they have decades of investing ahead of them.

Educating Investors: An Opportunity for Advisors

Cumulatively, recent research suggests that there is a considerable opportunity for advisors to dispel fears and misperceptions by educating investors of all ages about the importance of creating and maintaining an asset allocation and retirement planning philosophy that is appropriate for their investor profile.

[1] *Wealthfront.com, Wealthfront News, "$1 Billion in 2.5 Years," June 4, 2014.*

[2] *Investing in stocks involves risks, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.*

[3] *Plansponsor, "Baby Boomers, Millennials Should Switch Retirement Investing Goals," October 2, 2014.*

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Since your teen will probably apply to only a handful of schools, you may need to narrow the field by comparing schools on big issues such as course offerings, tuition costs, and financial aid packages.

Life After High School: Educating Your Teen

Choosing the right college or trade school may be the biggest decision you and your teen make together. Above all, you will likely be looking for a quality education at a reasonable price. But other factors will affect the decision. Here are some ideas and resources for organizing your search.

First Things First

Set priorities: Ask your teen to list 10 things he or she would like to see in a college or trade school. Also, keep your teen's school records handy. Being able to match strengths and goals to a school's offerings will help when making a decision.

Other factors to consider include:

- Size/setting: Should it be a big public school or a small private one? Is a big city preferred over a small-town setting?
- Campus/social life: Should it be a same-sex or co-ed school? What about religious affiliations? Sports and arts programs?

The Selection Process

Since your teen will probably apply to only a handful of schools, you may need to narrow the field by comparing schools on big issues such as course offerings, tuition costs, and financial aid packages.

While costs for colleges and trade or vocational schools will differ, the average tuition and fees at public, in-state, four-year institutions increased about 2.9% for the 2014-2015 academic year. Tuitions and fees at four-year private schools increased about 3.7% over the prior year. When you add in room and board costs, today's college bill adds up to roughly $19,000 a year for a four-year, in-state public college and $42,400 for a four-year private school.[1] And if your child is still many years away from college you can undoubtedly expect to pay more.

Finding Financial Aid

Billions of dollars are available in federal, state, and privately funded financial aid if you know where to look. Start with guidance counselors and financial aid offices. In addition, the following organizations offer ample, free information:

- The College Board: Call your regional office or visit www.collegeboard.org.
- FinAid: Visit www.finaid.org.
- U.S. Department of Education, Federal Student Aid Information Center: Call (800) 433-3243 or visit www.fafsa.ed.gov.

[1]*The College Board, "Trends in College Pricing 2014," November 13, 2014.*

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

The Benefits of an Insurance Review

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. To 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.

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