YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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In This Issue

KEY TAKEAWAYS

- Jerome Powell will take over as Fed chair on February 3 and may continue the path of data-dependent, gradual rate hikes laid out by his predecessor, Janet Yellen.
- Loosening regulations on banks, done in part by the Fed itself, could stimulate lending and provide another tailwind to an already strengthening economy.
- If current Fed nominees are confirmed, President Trump will still have three vacancies to fill, which could change the makeup of the body.

THE FED IS MOVING FORWARD

Jerome Powell will begin his term as chair of the Federal Reserve (Fed) on February 3, following the Fed's upcoming January 30-31 meeting. He is largely expected to follow a similar monetary policy blueprint as outgoing Chair Janet Yellen, with balance sheet normalization continuing as previously scheduled and a gradual path of data-dependent rate hikes. With Powell's confirmation, and Yellen's upcoming exit, President Trump will have three remaining posts to fill on the Fed's seven-member board of governors (assuming the previously nominated Marvin Goodfriend is confirmed as expected).

DEREGULATORY PUSH

One of the key ways that Powell may differ from Yellen centers on his plan to potentially lighten regulation of the financial sector. Powell is viewed as receptive to the easing of regulatory burdens and has said that while regulation enacted since the financial crisis has made the financial industry safer, there is room for streamlining and some rollback. During his testimony with the Senate Banking Committee, Powell announced intentions to "continue to consider appropriate ways to ease regulatory burdens while preserving core reform," indicating that regulatory relief may be coming but wholesale, sweeping deregulation appears unlikely.

One person who is looking to help in the deregulatory effort is Randal Quarles. Quarles was confirmed by the Senate as a governor on the Fed's board, where he will vote on monetary policy. He will also hold the title of vice chairman for supervision. Quarles said during confirmation hearings that the government could relax or loosen some restrictions put in place post-financial crisis, as some of the regulations could arguably limit lending, and consequently economic growth. Data may back up Quarles' point: The increase in money supply from quantitative easing programs done by the Fed didn't have as much of an impact on growth or inflation as anticipated, largely because regulation kept much of that capital tied up on bank balance sheets.

How Deregulation Could Be Achieved

- **Limiting the number of banks that are subject to certain requirements**, such as the "stress tests," that were designed to ensure that banks could withstand market shocks. During Senate Banking Committee testimony, Powell indicated he did not believe that any of Wall Street's largest banks should still be considered "too big to fail."
- **Making changes to the Volcker Rule**, which prohibits banks from proprietary trading (trading with their own capital). Powell has signaled that some of these rules may be too broad and should be limited to exclude smaller financial institutions, which don't pose any large systemic risk.
- **Loosening liquidity coverage ratios**, both short- and long-term, which determine how much liquid assets banks must maintain based on their asset and liability mix.
- **Introducing changes to the types of assets that would qualify as high-quality liquid assets** (HQLA) that are needed to satisfy those liquidity coverage ratios. Investment-grade municipal bonds, for instance, have previously not qualified as HQLA, yet a recently passed House bill seeks to change that.

Notably, not all of the deregulatory possibilities listed above are under the purview of the Fed. Some may necessitate legislation, while other changes can simply be made by bank regulators like the Fed, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Simplifying regulations may have the added benefit of reducing costs associated with compliance. All of these changes combined could lead to increased profits for banks, but also to increased lending due to changes in allowable leverage ratios. This could be a further tailwind for an already improving economy.

MORE SEATS TO FILL

The president has significant leeway in how the makeup of the Fed changes in the near future. The Fed Board of Governors is a seven-member panel, and three of those positions are currently vacant. Former Governor Daniel Tarullo resigned in April, while Vice Chair Stanley Fisher stepped down effective mid-October for personal reasons. With Powell assuming his role as chair, there is an additional vacancy for his current role of Fed governor. The Senate did recently approve the president's pick for Vice Chair of Supervision, Randal Quarles; Marvin Goodfriend, a Carnegie-Mellon professor of economics, has been nominated as Fed governor, but has not yet been confirmed.

Within the rotating group of four voting members from the 12 reserve banks, there were three doves and one centrist in 2017. In 2018, the makeup will change to two hawks and two centrists, simply because of the rotation of Fed members. This move alone will push the overall FOMC toward a more hawkish bent, at least for 2018, regardless of what happens with the remaining vacancies.

THE FOMC STRUCTURE

The Federal Open Market Committee (FOMC) consists of 12 voting members—the 7 members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and, 4 of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis. The nonvoting Reserve Bank presidents attend the meetings of the Committee, participate in the discussions, and contribute to the Committee's assessment of the economy and policy options.

Doves: Fed officials who favor the full employment side of the Fed's dual mandate of low inflation and full employment.

Centrists: Fed officials who strike a balance between hawks and doves, and may end up on either side of the discussion depending on the topic and data.

Hawks: Fed officials who favor the low inflation side of the Fed's dual mandate.

DUAL MANDATE

The Fed's explicit mandates are maximizing unemployment and stable prices. The Fed seeks to have unemployment at or near its natural rate (as some unemployment is a sign of a healthy economy, with workers free to move from job to job) and inflation at or near the Fed's 2% target. With respect to these two mandates, the Fed has found itself in a goldilocks zone for the past several years. Unemployment has continued to decline, a positive sign for the economy, but inflation has not experienced a strong and meaningful pickup, which has allowed the Fed to raise interest rates in a slow and telegraphed manner. Wage growth has in previous cycles needed to push to about 4% to make the Fed more aggressive in its rate hike schedule. With wage growth currently running near 2.5%, this is another sign that the Fed can continue its tempered approach to raising rates.

We believe there is a third mandate, though not explicit, that the Fed no doubt keeps an eye on, and that is the strength of the U.S. dollar. Though recent dollar weakness has lessened this concern, the Fed remains cognizant of dollar strength relative to other global currencies. The Fed's optimal scenario is to raise interest rates without causing major dollar strength. An overly strong U.S. dollar can have negative impacts for the global economy. Many emerging market (EM) countries issue debt denominated in U.S. dollars to increase attractiveness for U.S. and global investors. A very strong dollar means that those debt payments become more expensive to make, potentially leading to delays in payments or even defaults on EM sovereign debt. This could cause a snowball effect that would harm the global economy. On a more practical level, a strong dollar can lead to price appreciation for goods in EM countries, such as food and energy, which comprise a larger portion of consumer pricing measures than in developed markets, and could lead to negative humanitarian consequences. This is another scenario that nobody, including the Fed, wants to see.

CONCLUSION

Under Powell's new leadership, the Fed could remain data dependent, patient, and telegraphed in its gradual approach to raising interest rates. It is also anticipated that the Fed will remain on the same path with respect to balance sheet reduction, resulting in a continued ramp up over the course of 2018. The Fed is tightening monetary policy as other important central banks, like the Bank of Japan and the European Central Bank, are in a holding pattern with their easy policy, though they may too scale back accommodation in the coming year. Reducing the regulatory burden on banks may lead to an increase in lending capacity, which combined with the recent tax cuts could be a further tailwind for an already strengthening economy. If this happens, we could see stronger corporate profits, a steepening yield curve, and a pickup in gross domestic product growth.

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.

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.

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.

International debt securities involve 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.

DEFINITIONS

Quantitative easing (QE) is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System, is charged under U.S. law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of U.S. Treasury securities).

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

Yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

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Three Strategies to Help You Manage Volatility

Equity investors looking to limit volatility may want to consider dividend-paying stocks.

Managing an investment portfolio is a challenge. Recent market cycles have tested many investors' commitment to their long-term investment plans.

Understand that while volatility cannot be eliminated, it can potentially be reduced. The following three strategies can be used to help you reduce the amount of volatility in your portfolio.

Strategy 1: Seek Investments With Low Correlation

Longer term, the market risk associated with an individual asset class, such as stocks, may be reduced by allocating a portion of a portfolio's assets to other types of investments that historically have reacted differently to market and economic events.[1] This is known as "correlation," which measures the tendency of two investments to move together. A correlation close to zero indicates that two investments are largely independent of each other. The closer a correlation is to 1.00, the greater the tendency two investments have had to move in tandem. The table below lists four assets that have had relatively low correlations with U.S. stocks during the past decade.[2] Past performance does not guarantee future results.

	Commodities	Cash	Investment-Grade Bonds	Home Prices
Large-Cap Stocks	0.52	-0.17	0.02	0.19

Strategy 2: Diversify Your Investments[1]

Modern portfolio theory is founded on the assumption that investment markets do not reward investors for taking on risks that could be eliminated though diversification. There are many strategies available for diversifying a stock portfolio. Investors can allocate portions of a portfolio to domestic and international stocks, which may take turns outperforming depending on circumstances in various global economies.[3] An allocation to small-cap, midcap, and large-cap stocks also provides exposure to companies of various sizes. Although there are no guarantees, smaller companies may be nimble enough to exploit untapped market niches and capitalize on growth potential.[4]

Strategy 3: Consider Dividend-Paying Stocks

In addition, equity investors looking to limit volatility may want to consider dividend-paying stocks. Although a company can potentially eliminate or reduce dividends at any time, a dividend may provide something in the way of a return even when stock prices are volatile. When evaluating dividend-paying stocks, it may be worthwhile to review how long a company has paid a dividend and whether the dividend has increased over time. According to a study by S&P Dow Jones Indices, firms that had increased their dividends for the past 25 years outperformed the S&P 500 and also were less volatile during the 5-year, 10-year, and 15-year periods ending June 30, 2015.[5] Past performance does not guarantee future results.

For investors interested in managing volatility, low-correlation investments, diversification, and dividend-paying stocks may be worth considering.

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

[2] *Source: DST Systems, Inc. Large-cap stocks are represented by the S&P 500 index, commodities by the Standard & Poor's GSCI®, cash by the Bloomberg Barclays 3-Month Treasury Bill index, investment-grade bonds by the Bloomberg Barclays Aggregate Bond index, home prices by the S&P/Case-Shiller 20-City Composite Home Price index. You cannot invest directly in an index. Past performance is not a guarantee of future results. Data is based on the 10-year period ending December 31, 2016.*

[3] *Foreign stocks involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.*

[4] *Securities of smaller companies may be more volatile than those of larger companies. The illiquidity of the small-cap market may adversely affect the value of these investments.*

[5] *Source: S&P Dow Jones Indices. Returns are based on the S&P 500 Dividends Aristocrats. Volatility is measured by a statistic known as standard deviation. Past performance does not guarantee future results.*

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A Net Worth Statement Helps Keep Retirees on Track

Taking stock of your assets and liabilities may require a bit of research at first, but the process will get easier each time you do it.

A number of planning tools can help retirees monitor their cash flow and make appropriate adjustments in response to changes in income and expenses. Not the least of these is a net worth statement.

By calculating your net worth, you are essentially taking a snapshot of your current financial status. That snapshot can then provide you with the information you need to make important financial decisions.

What is net worth? It is more than just your income -- it's your overall wealth. To determine your net worth, just add up your assets and subtract your liabilities. Your assets are everything you own, including the money in your bank accounts, retirement plans, and investments accounts as well as real estate and even possessions such as your car(s) or a boat. Your liabilities are what you owe. This may include the balance on your home mortgage, credit card debt, car payments, and even unpaid taxes.

Taking stock of your assets and liabilities may require a bit of research at first, but the process will get easier each time you do it. It's a good idea to review the calculation each year to make sure you stay on the right track.

Whether your net worth is higher or lower than you expected really should not be of concern. The main purpose of identifying your net worth is to give you a reference point for assessing your overall financial health.

The following worksheet will help you break down your assets and liabilities so you can reach your bottom line.

YOUR ASSETS	
Cash/bank accounts, CDs, etc.[1]	$
Vested share of retirement accounts (employer plans, pensions, profit-sharing plans, etc.)	$
Market value of investments (stocks, bonds, mutual funds, IRAs, annuities, etc.)[2]	$
Market value of real estate (home, other property)	$
Market value of vehicles (car, boat)	$
Cash value of insurance policies	$
Other (valuables, furnishings, etc.)	$
TOTAL ASSETS	$
YOUR LIABILITIES	
Balance due on home or real estate mortgage(s)	$
Balance due on loans (car, student, real estate)	$
Balance due on rental properties	$
Balance due on credit cards	$
Fixed monthly payments	$
Unpaid taxes	$
Other	$
TOTAL LIABILITIES	$
YOUR NET WORTH (Subtract liabilities from assets)	$

[1]CDs are FDIC insured and offer a fixed rate of return if held to maturity.

[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. 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.

An annuity is a long-term, tax-deferred investment vehicle designed for investment purposes and contains both an investment and an insurance component. They are sold only by prospectus. Guarantees are based on the claims-paying ability of the issuer and do not apply to an annuity's separate account or its underlying investments. The investment returns and principal value of the available subportfolios will fluctuate so that the value of an investor's unit, when redeemed, may be worth more or less than their original value. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal.

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Kids & Money: Important Lessons Start Early in Life

To ensure that important life goals remain at the forefront of your children's -- and likely heirs' -- priorities throughout their lifetimes, incorporate the use of incentives in your estate plan.

Today many affluent families are concerned about the potentially adverse effect of wealth on younger generations. As a result, the goals that many high-net-worth parents and grandparents have set for their children or grandchildren reflect core values, an honest work ethic, and a desire to give back to the greater community.

Walking the Talk

The skills and knowledge needed to help children achieve these goals should be developed early in life and continue well into adulthood. The following strategies can assist older family members in becoming positive financial role models for children.

Start early -- Parents can start talking to children about money at as young as age three. Between four and five, you can explain the importance of good spending habits, and by age six or seven, you can help children open a bank savings account. By the time children reach their mid-teens, they should start seeking after-school and summer employment.

Support education -- Personal finance education helps instill such pragmatic money management skills as setting a budget, balancing a checkbook, understanding the role of debit/credit cards, and developing strategies for funding college. Encourage your child's school to offer personal finance as an elective "life skills" course, send your teen to a community college/adult education class, or tap the many educational resources available online.

Lead by example -- Your children will learn the most valuable lessons about money from examples you set. A few simple rules: Enjoy the fruits of your labor -- but don't go overboard. Set a healthy example regarding credit card use. Pay your bills on time. Save and review your savings plan on a regular basis. Above all, be consistent.

Use incentives -- To ensure that important life goals remain at the forefront of your children's -- and likely heirs' -- priorities throughout their lifetimes, incorporate the use of incentives in your estate plan. What exactly is an incentive trust? It is an estate planning tool designed to reward desired behaviors or impose appropriate penalties for undesirable behaviors. It also provides a way to address the needs of beneficiaries who require special assistance. Common themes guiding incentive trusts are education, moral and family values, and business/vocational choices, as well as charitable and religious interests.

Encourage philanthropy -- Affluent families often use philanthropy to convey the message that their success has been the result of hard work and good fortune, and that success comes with the responsibility to give something back. If you want to ensure future generations of volunteers and donors, you must model for children various ways to give of their time, their talents, and their money. Once children understand the scope of their contributions, philanthropy often becomes a real and meaningful part of their lives.

If you are interested in developing a legacy plan that incorporates some of the ideas mentioned here, consider seeking the guidance of a financial and estate planning professional. Together you can create a plan that instills financial responsibility in children for generations to come.

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How Well Do You Know Your 401(k)?

Understanding your investment options is essential when building a portfolio that matches your risk tolerance and time horizon.

The old saying "knowledge is power" applies to many situations in life, including retirement planning. The more you know about the benefits your plan offers, the more likely you'll be to make the most of them and come out ahead financially when it's time to retire. Here are some questions to test your knowledge about your plan.

How Much Can I Contribute?

The maximum contribution permitted by the IRS for 2018 is $18,500, although your plan may impose lower limits. Further, if you are age 50 or older, you may be able to make an additional $6,000 "catch-up" contribution as long as you first contribute the annual maximum. Check with your benefits representative to find out how much you can save.

What Investments Are Available To Me?

One survey indicated that about a third of retirement plan participants were "not at all familiar" or "not that familiar" with the investment options offered by their employer's plan.[1] The study went on to reveal that individuals who were familiar with their retirement plan investments were nearly twice as likely to save 10% or more of their annual income, compared with those who report having little-to-no knowledge about such investments.[1]

Understanding your investment options is essential when building a portfolio that matches your risk tolerance and time horizon. Generally speaking, the shorter your time horizon, the more conservative you may want your investments to be, while a longer time horizon may enable you to take on slightly more risk.

What Are the Tax Benefits?

Contributing to your employer's retirement plan offers two potentially significant benefits. First, since your contributions are taken out of your paycheck before taxes are withheld, you lower your current taxable income. Plus, since you don't pay taxes on the money you contribute or on any investment earnings until you make withdrawals, more money is made available to potentially produce investment earnings.[2]

Will My Employer Make Contributions to My Account on My Behalf?

Many companies try to encourage participation in their retirement plans by matching workers' contributions up to a certain percentage of each worker's salary. One defined contribution benchmarking study indicates that the average promised company matching contribution is 4.1% of pay.[3] For their part, employees interviewed recently cited "taking advantage of the company match" as the top reason for participating in their company's retirement plan.[4]

How Long Before the Money in the Plan Is Mine?

Any money you contribute to your retirement account is yours, period. However, any matching contributions made by your employer may be on a "vesting schedule," where your percentage of ownership increases based on years of service. Current research indicates that 43% of employers now offer immediate vesting of matching contributions.[4] Because vesting schedules vary from plan to plan, be sure you know the specifics of yours.

Your benefits representative can help you answer these and other questions about your employer-sponsored plan. Being "in the know" may help you avoid missteps and make as much progress as possible on the road to retirement.

[1] *Pensions & Investments, "TIAA-CREF: Participants with knowledge of investment options more likely to save," February 26, 2014.*

[2] Withdrawals from tax-deferred retirement accounts will be taxed at ordinary income tax rates. Withdrawals made prior to age 59½ may be subject to a 10% additional federal tax.

[3] The Vanguard Group, Inc. "How America Saves, 2017."

[4] Deloitte Development LLC, "Defined Contribution Benchmarking Survey," 2017 Edition.

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