Clear Financial Group

YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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Bond Market Perspectives | Week of June 29, 2015

KEY TAKEAWAYS

- Municipal supply has been a headwind for much of 2015 but appears to be tapering off ahead of a typical summer slowdown.
- Over the longer term, still tight state budgets may keep broader municipal supply restrained and limit growth of the overall municipal bond market, which could become a tailwind.
- Despite the constant flow of negative headlines, primarily from Puerto Rico, the overall credit quality of the municipal market appears to be on solid footing.

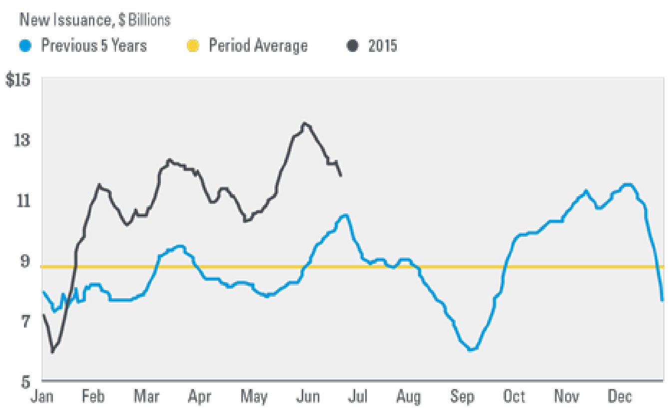
STATE OF THE STATES

July 1 is the beginning of the fiscal year for 46 of 50 states and the ability of states to get budgets approved is imperative, as a delay could impair states' abilities to make timely interest and principal payments on their debt obligations.

SUPPLY AND DEMAND

Municipal supply has been a headwind for much of 2015 but appears to be tapering off ahead of a typical summer slowdown. New issuance, as measured by *The Bond Buyer's* 30-day visible supply calendar, has run well ahead of the average pace of the prior five years [Figure 1]. As Figure 1 also illustrates, supply is slowing earlier, compared with a seasonal slowdown that typically begins at the start of July.

1 ABOVE NORMAL REFINANCING ACTIVITY HAS LED TO ELEVATED SUPPLY THROUGHOUT 2015



Source: LPL Research, *The Bond Buyer* 06/26/15

Chart shows 1-month moving average of 30-day expected new issuance (30-day calendar) for the previous 5 years and for 2015.

Period average represents the average of the previous 5 years of the 1-month moving average of 30-day expected new issuance (30-day calendar).

On a positive note, the bulk of new issuance in 2015 has been due to refinancing, as governments take advantage of lower market interest rates. Now, higher interest rates should slow refinancing activity, if it has not already done so.

Supply is also likely to be limited as state budgets are still under stress. State revenue has increased steadily since 2010, but at a slower pace than expenditures. State tax revenue has recovered at the slowest pace following any recession over the last 50 years. Therefore, capacity to take on new debt may still be limited. Over the longer term, still tight state budgets may keep broader municipal supply restrained and limit growth of the overall municipal bond market. This could potentially become a tailwind for investors as demand remains elevated relative to supply.

STATE AUSTERITY

The term "austerity" is linked to Europe, but the positive, albeit slow, recovery in state revenue has led to a mild version of state austerity. Per Moody's, the overall state debt backed by taxes, which does not include local government debt or specific revenue projects, actually fell in 2014 for the first time in 28 years. Moody's prediction is for state debt levels to stay flat in 2015 but potentially rise over the long term, as overdue infrastructure spending will be necessary in light of little assistance from the federal government.

The American Society of Civil Engineers estimates that approximately $3.6 trillion in infrastructure repairs will be necessary by 2020. The figure shows that state and local governments have been forgoing road and bridge maintenance for years, while recouping the damage done to revenue during the Great Recession.

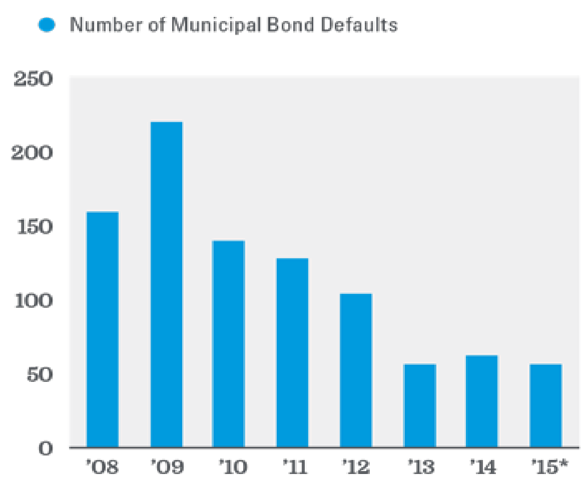
Pension obligations continue to pose a long-term threat to state budgets but pension funding has improved recently. A study by Boston College's Center for Retirement Research showed that from 2013 to 2014, pension funding levels and the payment of required contributions both increased. One driver of modest pension funding improvement has been stock market gains. Higher state tax revenue--comprised primarily of income, corporate, and sales taxes--has also helped. However, the slow recovery in corporate taxes means that states must remain conservative. Over the long term, potentially with a less accommodating stock market, the burden of pension obligations may lead to tax hikes, such as those being considered by Pennsylvania, Chicago, and Illinois. Though a potential negative for economic growth, increasing taxes could enhance the allure of tax-advantaged municipal bonds.

PROBLEM ISSUERS STILL ISOLATED

Puerto Rico's government has been unable to agree on a fiscal 2016 budget, which is needed to obtain short-term funding. Without it, Puerto Rico will likely default on some or most of its debt obligations. A Puerto Rico default has been more a question of when (not if) and of how many issuers would be impacted. At this point, the broader municipal market has treated Puerto Rico as an isolated event; but the threat of forced liquidations, although limited, could adversely impact the broader muni markets should liquidations, if any, become disorderly. Puerto Rican bonds have been deeply discounted for some time and we believe the declines over the last two trading days largely price in a high probability of default.

Despite the constant flow of negative headlines, most recently from Chicago, the state of Illinois, and Puerto Rico, the overall credit quality of the municipal market appears to be on solid footing. The number of municipal defaults is on pace to finish 2015 at a historically low level [Figure 2].

2 MUNICIPAL DEFAULTS ARE ON PACE TO FINISH 2015 AT A HISTORICALLY LOW LEVEL

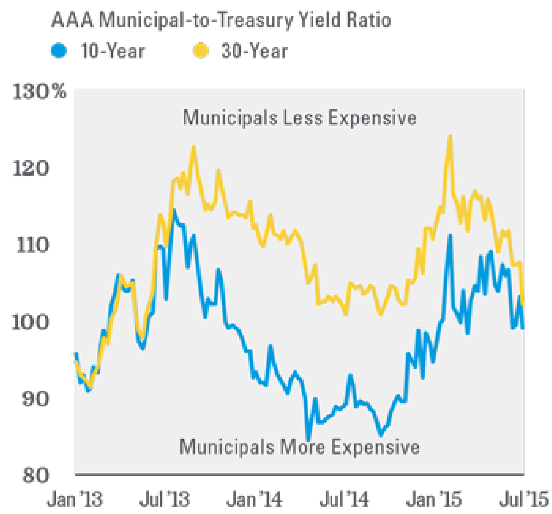


Source: LPL Research, Municipal Market Advisors (MMA), Bloomberg 06/26/15

*Annualized total based on data through June 18, 2015.

Though still above their 20-year averages, average AAA municipal-to-Treasury ratios fell in June, indicating that municipal valuations have richened steadily over the month [Figure 3].

3 **VALUATIONS HAVE RICHENED RECENTLY**



Source: LPL Research, MMA 06/26/15

The improvement in 30-year valuations has been more pronounced than that of 10-year valuations. Despite richening, the 10-year AAA municipal-to-Treasury ratio is about 100%, above where it was for much of 2014. The same can no longer be said for the 30-year ratio, suggesting more caution may be warranted on the long end of the municipal curve. Intermediate municipals may provide better value currently, in addition to less interest rate sensitivity, and may provide a favorable risk-return trade-off relative to longer-dated municipals.

With the number of defaults low from a historical context, the municipal market may be in a good place to enjoy the tailwind of limited supply through 2015-2016. We find municipals to be one of the more attractive options among high-quality bonds, in what will likely continue to be a low-return environment. Over the near term, declining supply and favorable summer seasonality may provide a further tailwind, as July and August are historically two of the best performing months for municipal bonds, as the market benefits from the drop off in supply.

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 referenced is historical and is no guarantee of future results.

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.

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 rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

Because of its 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.

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Different agencies employ different rating scales for credit quality. Standard & Poor's (S&P) and Fitch both use scales from AAA (highest) through AA, A, BBB, BB, B, CCC, CC, C to D (lowest). Moody's uses a scale from Aaa (highest) through Aa, A, Baa, Ba, B, Caa, Ca to C (lowest).

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Tracking #1-396770 (Exp. 06/16)

Retirement Confidence: It's All in the Plan

Among the total survey population about two-thirds are somewhat or very confident in the steps they are taking to prepare for retirement.

Americans' confidence in the ability to afford a comfortable retirement continues to rebound from the lows reported between 2009 and 2013. The increasing optimism is coming largely from workers who indicate they and/or their spouse have a retirement plan, such as a defined contribution (401(k)-type) plan, defined benefit (pension) plan, or individual retirement account (IRA). This is one of the key takeaways from the 25th annual *Retirement Confidence Survey (RCS)* -- the longest-running survey of its kind, conducted by the nonpartisan Employee Benefit Research Institute (EBRI) and Greenwald & Associates.

According to the *2015 RCS*, among workers with access to some type of retirement plan, more than one in five (22%) are "very confident" they will have enough money to live comfortably in retirement, up from 13% in 2009 -- a time when devastating losses to retirement plan assets caused by the financial crisis of 2007-2008 crushed investor confidence. This year an additional 36% reported being "somewhat confident" in their ability to live comfortably in their later years, while 24% are "not at all confident" in their retirement prospects. This percentage has remained statistically the same for the past two years.

Paying the Bills

The data also showed that workers are becoming more confident in their perceived ability to pay for living expenses in retirement. For example, 37% of workers report being "very confident" that they will be able to pay for basic living expenses -- up from 29% in 2014. Similarly, a smaller but growing percentage of workers express confidence in their ability to meet medical expenses (18%) and long-term care expenses (14%) -- up from 12% and 9% respectively in 2011.

Retirement Plans Make the Difference

Among the total survey population about two-thirds are somewhat or very confident in the steps they are taking to prepare for retirement. Yet the story is quite different for workers without access to a retirement plan. Among this group, only 23% have done a retirement needs calculation and 64% say they have saved less than $1,000. By contrast, among those with access to a retirement plan, 35% have saved at least $100,000 compared with just 3% of those with no plan.

Delaying Retirement May Not Be an Option

Perhaps as a way to make up for their lack of planning, 16% of workers in the 2015 study say the age at which they plan to retire has changed and, among this group, 81% plan to retire later than originally expected. But, the researchers contend, this plan may fall flat for many. "Workers still expect to work longer to make up for any savings short falls," stated Craig Copeland, senior research associate at EBRI and coauthor of the study. "However, many retirees continue to report that they retired before they expected to due to an illness or disability, needing to care for others, or because of a change at their job. Consequently, relying on working longer is not a solid strategy for retirement preparedness."

These are just some of the findings in the latest Retirement Confidence Survey. To learn more or to see the study in its entirety, visit EBRI's website.

Employee Benefit Research Institute and Greenwald & Associates, 2015 Retirement Confidence Survey, April 21, 2015.

Many IRA owners may not be aware that after their death, the primary beneficiary -- usually the surviving spouse -- may have the right to transfer part or all of the IRA assets into another account.

It's 2015: Do You Know Who Your Beneficiaries Are?

Many investors have taken advantage of pretax contributions to their company's employer-sponsored retirement plan and/or make annual contributions to an IRA. If you participate in a qualified plan program you may be overlooking an important housekeeping issue: beneficiary designations.

An improper designation could make life difficult for your family in the event of your untimely death by putting assets out of reach of those you had hoped to provide for and possibly increasing their tax burdens. Further, if you have switched jobs, become a new parent, been divorced, or survived a spouse or even a child, your current beneficiary designations may need to be updated.

Consider the "What Ifs"

In the heat of divorce proceedings, for example, the task of revising one's beneficiary designations has been known to fall through the cracks. While a court decree that ends a marriage does terminate the provisions of a will that would otherwise leave estate proceeds to a now-former spouse, it does not automatically revise that former spouse's beneficiary status on separate documents such as employer-sponsored retirement accounts and IRAs.

Many IRA owners may not be aware that after their death, the primary beneficiary -- usually the surviving spouse -- may have the right to transfer part or all of the IRA assets into another account. Take the case of the IRA owner who has children from a previous marriage. If, after the owner's death, the surviving spouse moved those assets into his or her own IRA and named his or her biological children as beneficiaries, the original IRA owner's children could legally be shut out of any benefits.

Also keep in mind that the law requires that a spouse be the primary beneficiary of a 401(k) or a profit-sharing account unless he/she waives that right in writing. A waiver may make sense in a second marriage -- if a new spouse is already financially set or if children from a first marriage are more likely to need the money. Single people can name whomever they choose. And nonspouse beneficiaries are now eligible for a tax-free transfer to an IRA.

The IRS has also issued regulations that dramatically simplify the way certain distributions affect IRA owners and their beneficiaries. Consult your tax advisor on how these rule changes may affect your situation.

To Simplify, Consolidate

Elsewhere, in today's workplace, it is not uncommon to switch employers every few years. If you have changed jobs and left your assets in your former employers' plans, you may want to consider moving these assets into a rollover IRA. Consolidating multiple retirement plans into a single tax-advantaged account can make it easier to track your investment performance and streamline your records, including beneficiary designations.

Review Your Current Situation

If you are currently contributing to an employer-sponsored retirement plan and/or an IRA contact your benefits administrator -- or, in the case of the IRA, the financial institution -- and request to review your current beneficiary designations. You may want to do this with the help of your tax advisor or estate planning professional to ensure that these documents are in synch with other aspects of your estate plan. Ask your estate planner/attorney about the proper use of such terms as "per stirpes" and "per capita" as well as about the proper use of trusts to achieve certain estate planning goals. Your planning professional can help you focus on many important issues, including percentage breakdowns, especially when minor children and those with special needs are involved.

Finally, be sure to keep copies of all your designation forms in a safe place and let family members know where they can be found.

This communication is not intended to be tax or legal advice and should not be treated as such. Each individual's situation is different. You should contact your tax or legal professional to discuss your personal situation.

Tracking # 1-387030

Spring Cleaning for Your Small Business

Younger business owners tend to use credit cards to fund business expenses more than older owners.

Like most other aspects of your life, your business needs a good spring cleanout and reorganization. Here are a few financial housekeeping tips you may find useful.

Keep Cash Flowing

Regular cash flow forecasting is a critical part of small business management. It allows you to foresee fluctuations in the business and make adjustments to cover expenses. It is foolhardy to keep your fingers crossed and just hope that things will turn out okay in terms of cash flow. You need to be in control and project as best you can what is going to come in and go out for any given period. Small businesses are particularly vulnerable to being blindsided with regard to cash flow. That is why businesses should have an emergency fund.

Maintain Effective Collections/Billing Policies

Late-paying customers are the cause of most small business's cash flow woes. Typically 20% of customers account for 80% of the business -- so it is in your best interest to persuade that 20% to pay on time. Using payment incentives can be an effective way to reduce collection time. Offering a small (up to 5%) discount for payment within 10 days may motivate many customers to pay quickly. Another consideration is billing more frequently. Over time, this practice may boost flow by reducing your "float" period.

Use Credit Wisely

Younger business owners tend to use credit cards to fund business expenses more than older owners. This can be a dangerous practice, especially if they are paying between 15% and 20% interest. Typically a bank loan is a better choice, and among the various options, a line of credit is preferable to a small business loan. With a small business loan, the interest on the entire loan starts accruing when the money transfers from the bank to your account. Why pay interest on $20,000 when you have only used $5,000? When using credit, the important thing is timing. Be very specific about when you need the money and how much you need.

As your business grows and cash management becomes an even bigger issue, look to your business banker for assistance in improving your company's bottom line.

Tracking # 1-387036

Passing along property during your lifetime may be one way to minimize estate taxes.

Art and Collectibles: Planning for the Transfer of Your Treasured Property

For many individuals collecting artwork, jewelry, antiques, and other vintage treasures is a lifelong passion. Deciding what is to become of your valuable personal assets when you are no longer around to care for them is not something to take lightly, particularly when it comes to planning for the distribution of your estate.

Let's say over the years you have accumulated several valuable oil paintings. Ask yourself: Do I want to pass my collection on to family members? Do they have the expertise to manage valuable or fragile assets? Would a museum be a better home? Is it economically feasible to keep my collection intact, or will I need to sell some pieces to cover various expenses?

If you don't address these questions while you are here and able to do so, it is likely that your estate executor or attorney -- who may not have your passion for art -- will do so for you when you're gone. Deciding what to do with a treasured collection generally involves three tasks: assessing value, naming beneficiaries, and communicating your intentions.

Assessing Value

Putting a price tag on your collectibles is, pardon the pun, more art than science. Viewers of the "Antiques Road Show" on PBS know that the appraised value of unique property sometimes surprises even the owner. You'll want to consult a professional appraiser who specializes in your type of collectible. Location, too, may be a consideration. If you own a prized statue from a local sculptor, you may want to speak to a nearby appraiser who is familiar with the regional market.

A paper trail -- receipts, newspaper articles, old photos, and letters -- that can help trace the history of, for example, an antique Smith & Wesson revolver collection could enhance your appraisal. After all, if sold at auction, a gun proved to be fired by Teddy Roosevelt would most certainly bring in a higher bid than one owned by an anonymous cowboy. Needless to say keeping good records that include the tax basis and appraised value of collectibles will come in handy when assessing capital gains, identifying gift and donation deduction amounts, and submitting insurance claims should such property become lost or damaged.

Naming Beneficiaries

When drafting a will, be specific in bequeathing your tangible and personal property. Doing so will help you avoid the potential for family discord by noting item-by-item who gets what and under what circumstances. For added clarity, it may be wise to identify primary and alternative beneficiaries for such items.

Gifts to Charity; Weighing the Tax Implications

You may want to consider making a charitable gift to a museum or other reputable institution. Passing along property during your lifetime may be one way to minimize estate taxes. By consulting with your tax advisor, you might decide to make a gift during your lifetime that offers an immediate tax deduction. In contrast, bequeathing a gift postmortem may mean missing out on any income tax benefits while you are alive.

A formal gift agreement will spell out the terms of the transfer. For instance, would you want a particular item to be on a permanent or restricted exhibit? Should your gift be made anonymously or should the piece include your family's name engraved on a plaque?

Preserving Your Valuables for Posterity

It is important to leave sufficient liquidity at your death to avoid the unintended sale of a treasured collection to raise fast cash. Creative life insurance strategies may be employed to match the value of the donation. A trust professional working with your attorney can explain other strategies that may help execute your charitable wishes and extend your legacy for future generations.

Communicate Your Intentions

No matter what approach you choose, it is important to communicate clearly with family members and other third-party beneficiaries. Write your wishes down to mitigate chances for misunderstanding. With proper planning, you can enjoy your passion and take advantage of potential tax benefits at the same time.

This communication is not intended to be legal and/or tax advice and should not be treated as such. Each individual's situation is different. You should contact your legal and/or tax professional to discuss your personal situation.

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