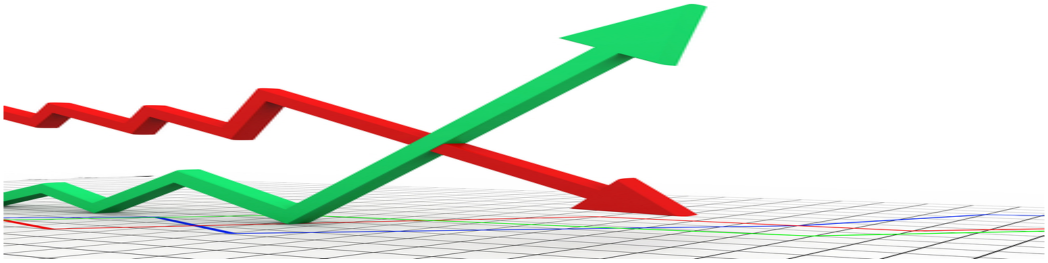
McBork Quarterly Report: 3rd Quarter 2015

August 27, 2015



Over the last month we saw the S&P 500 Index retreat about 12.4% from its all-time high and down 5.8% year to date. The classic definition of a stock market correction is a 10% decline from a recent market high. We have gone an uncommonly long four years without such a correction so this may feel alarming. In fact, last year the S&P 500 index went down 9.8% between September 19th and October 15th. Many might not recall this because (1) it happened over a one month period rather than three or four days, and (2) by the end of October, we were again testing new highs.

As I have mentioned to you in past McBork Reports, the only path to sustainable market advances is periodic, base-building corrections. Through the inevitable market ups and downs, we must stay focused on long-term goals. It is well worth remembering that, for all the risks of investing in stocks, there are also opportunity costs in avoiding stock investment. Even after this recent correction, the S&P 500 Index is up a whopping 191% since March, 2009.

In my opinion it would take a major catalyst to move the stock market up or down significantly from this point. I do not see such a catalyst right now. China's sharp 44% Shanghai Composite Index correction along with their devaluation of their currency confirm that Chinese economic growth is slowing down. The Chinese downturn certainly played a role in our correction but I believe that its impact may have been exaggerated. Additionally, there are countervailing forces such as declining oil prices and continued low interest rates that may provide a lift to stocks. I still feel that U.S. market fundamentals are quite good. In 2015's second quarter, 70% of S&P 500 companies (excluding energy and discounting the strengthening of the dollar) outperformed earnings expectations. Year over year, earnings increased over 12% for these companies.

It seems to me that we will continue to trudge along for the rest of the year. The DJ World Index (excluding US) is down 7.6% this year. The MSCI Emerging Markets Index of developing countries is down significantly more, 18.9%, obviously influenced by events in China and Greece. Bonds actually have done well considering the continuing forecasts of interest rate increases. The Barclays Aggregate Bond Index is up around 0.5% for the year.

2015 has been in some respects somber for our practice because a handful of our wonderful clients passed away. Wisely these individuals had taken prudent steps to ensure that their estates would be distributed in accordance with their wishes. Unfortunately that is not always the case. Consequently let's review several prudent estate planning measures.

Regarding Retirement Accounts…

Do you know if your beneficiaries are listed on your retirement accounts as **pro rata** or **per stirpes**? The distribution of your assets can differ greatly depending on which you choose. Under **pro rata** guidelines, if a named beneficiary were to predecease you, that beneficiary's share would be distributed to the remaining named beneficiaries. Under **per stirpes** guidelines, if a beneficiary were to predecease you, that beneficiary's share would be distributed to <u>their</u> heirs.

To clarify the difference, imagine that you have three children and you specify that each of them should receive 33% of the distribution upon your death. Were one of your children to predecease you, under **pro rata** guidelines the remaining two children would receive 50% of the distribution upon your death. On the other hand, under **per stirpes** guidelines, the two surviving children would receive 33% while the heirs of the deceased child, often a spouse, would receive the remaining third.

Speaking of the designation of children on retirement and insurance accounts, you should be aware of a change in practice. Years ago, when I started with Mike, it was quite common for us to list beneficiaries as "all living children equally." However, we now prefer to name each child individually with percentages specified.

We are often asked whether clients who have trusts should designate these trusts as primary or contingent beneficiaries on retirement accounts. Some attorneys we work with recommend that only individuals be listed as beneficiaries, while others recommend that the trust itself may be named as a beneficiary. Clearly there are pros and cons to each alternative. What is essential is that your situation be examined carefully to identify the best option for you.

Regarding Non-Retirement Accounts…

Over the last few years many clients have transferred their non-retirement accounts into what are called TOD (Transfer on Death) accounts. TOD accounts are similar to the beneficiary arrangements in retirement accounts. If something happens to you, the money is then distributed to those that you have designated without recourse to the provisions of your will and probate.

Another question we routinely receive from clients who have trusts is whether all of non-retirement assets should be titled in the name of the trust. We recommend that clients with trusts confer with their attorneys to see whether any non-retirement accounts should be retitled in the name of the trust.

My family actually set up a trust a few years ago but I have been slow to implement it. If something were to happen to us, the boys (Bo now 5 and Leo 6 months) would inherit the money. However there would be no guidelines for the custodian as to how we wish the money to be distributed. Had our non-retirement assets been placed in our trust, on the other hand, the provisions would specify out how the boys would receive the money. Preparing this McBork Quarterly Report reminds me to retitle our non-retirement accounts in the name of our trust within the next few weeks.

Final Reminders…

(1) Make sure you have a will. (2) Make sure that you have a power of attorney (POA) prepared for both health and for property. (3) Periodically review your life, disability and long-term care insurance needs. (4) Make sure your family knows of these arrangements.

Estate planning may be complicated, but we have a dedicated staff to help you find your way through this confusing web. We are in your corner, here to help you in any way we can. You can reach our team or me at (312) 923-8700 or (800) 406-9530.

Take care. Have a great rest of summer.

Gregory Bork Jr.

LPL Financial Registered Principal

The Dow Jones Global ex US Index is a measure of the global stock market minus US securities. It targets 95% coverage of markets open to foreign investment. The index currently tracks 47 countries, including 26 developed markets and 21 emerging markets. The Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds." Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. Stock investing involves risk 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 bonds are subject to availability and change in price. 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.