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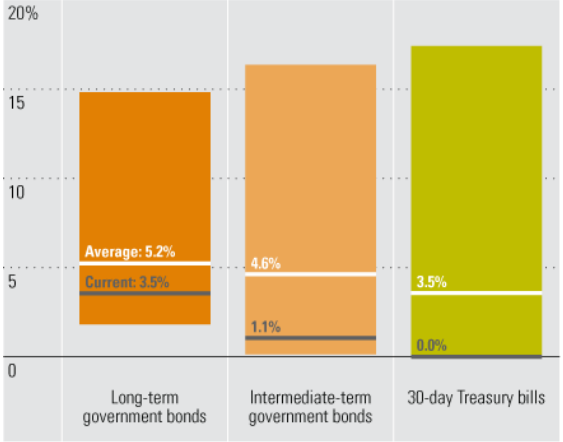
History of Interest Rates

It is commonly known that interest rates have been at historically low levels for a few years now. But how low are they? The image illustrates the characteristics of interest rates of various maturities. On average, long -term government bonds delivered the highest yield of 5.2%, while intermediate-term government bonds and 30-day Treasury bills provided an average yield of 4.6% and 3.5%, respectively. Current interest rates are positioned relatively close to the all-time lows, especially on the lower end of the maturity curve.

A rising interest rate environment seems to be the generally accepted forecast for the future. While rates can't drop much lower from their current level, the timing and magnitude of the rise still remains highly uncertain.

History of Interest Rates
January 1926–November 2013



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Indexes are unmanaged and not available for direct investment. Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. U.S. government bonds may be exempt from state taxes and income is taxed as ordinary income in the year received. With government bonds, the investor is a creditor of the government. In general, the price of a debt security tends to fall when interest rates rise and rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest-rate changes.

Data: The long-term government-bond yield is represented by the monthly Ibbotson SBBI U.S. Long-Term Government-Bond Yield Index. The intermediate-term government-bond yield is represented by the monthly Ibbotson SBBI U.S. Intermediate-Term Government-Bond Yield Index. The 30-day Treasury bill yield series uses annualized monthly Ibbotson SBBI U.S. 30-Day Treasury Bill Total Return Index.

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Advisor Corner

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2013 Market Performance
01-01-2013 to 12-31-13
DJIA ^DJI Up 26.50%
S&P 500 ^GSPC Up 29.60%
NASDAQ ^IXIC Up 38.32%
Russell 2000 ^RUT Up 37.00%

What will 2014 bring? ...

* Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

Dispelling Myths about 529 Plans

Myth 1: You have to contribute to a 529 in your home state. That statement is false with regard to 529 college-savings plans, in which money is invested in a portfolio of securities on behalf of a beneficiary. Any U.S. resident can contribute to a 529 college-savings plan in any state. Contributing to a plan offered by your home state might offer an added bonus in the form of a state income tax deduction, but that shouldn't be your sole consideration. If your state's plan is poor (with high fees and poor investment options, for example) looking at plans outside your state might be worth forgoing the tax break.

Myth 2: You have to send your child to a school in the state where his 529 plan is offered. Also false. A 529 college-savings plan is fully portable, meaning that assets can be used for college expenses in any state and at some institutions abroad regardless of which state's plan holds the account.

Myth 3: You can only get a tax deduction if you contribute to your state's plan. Usually true, but not always. In fact, residents of Arizona, Kansas, Maine, Missouri, and Pennsylvania get a state income tax break on 529 contributions made to any state's plan. Elsewhere the benefit is restricted to contributions to in-state plans, with deduction limits varying from state to state and some states offering tax credits.

Myth 4: If you save in a 529 account for your child, it will hurt his financial aid prospects. Possibly, but not as much as you might think. Yes, financial aid calculations generally do take into consideration 529 assets, but money in a 529 account owned by the parents or a dependent student counts far less than assets owned by the student outside a 529. In fact, non -529 student-owned assets carry more than 3 times more weight in financial aid calculations than do assets held in the parents' names. So no, 529 accounts aren't completely impact-free when it comes to financial aid, but the impact is relatively minor.

Myth 5: If your child doesn't go to college, you'll lose the money. Unused 529 money does not have to go to waste, or to the tax collector. It can be used to help pay another family member's college costs simply by changing beneficiaries or transferring funds to the family member's existing 529 account. And the list of potential recipients is rather long, including siblings, first cousins, parents, grandchildren, aunts and uncles, and even in-laws. If you do decide to cash out the plan, you'll have to pay federal and state income taxes on earnings, plus a 10% penalty (waived if the beneficiary dies, becomes disabled, or gets a scholarship).

Myth 6: All 529 plans are the same. This is a potentially costly mistake some investors make. Like many investment products, 529 plans may look similar from the outside, but once you get under the hood you'll find major differences that determine how effective they can be at helping you meet your college-savings goals. Fees, fund offerings, glide path (the rate at which the asset allocation switches from equities to fixed-income in age-based portfolios), and even ease of use vary from plan to plan. Fees, in particular, can have a corrosive effect on 529 assets, and can vary not only from state to state but also within the same plan.

529 plans are tax-deferred college savings vehicles. Any unqualified distribution of earnings will be subject to ordinary income tax and subject to a 10% federal penalty tax. Tax law is ever-changing and can be quite complex. It is highly recommended that you consult with a financial or tax professional with any tax-related questions or concerns. An investor should consider the investment objectives, risks, and charges and expenses associated with municipal fund securities before investing. More information about municipal fund securities is available in the issuer's official statement, and the official statement should be read carefully before investing.

Misconceptions About Backdoor Roth IRA Conversions

In 2014, the income limit for Roth contributions is $129,000 for single filers and $191,000 for married couples filing jointly. For high-income earners who earn too much to contribute to a Roth IRA directly, the only method of getting new assets into a Roth IRA is to go in through the backdoor, opening traditional nondeductible IRAs, then converting those accounts to Roth IRAs. It's a way for higher-income folks to pay tax now in exchange for tax-free withdrawals of at least some of their assets during retirement. But the maneuver carries some important caveats, so it pays to stay attuned. Here are four of the biggest misconceptions about backdoor Roth IRAs.

Backdoor Roth IRAs Are Always Tax-Free: When you convert the newly opened traditional IRA to a Roth, you'll owe taxes on any appreciation in your shares since you made the initial purchase if you have no other IRA assets. But if you do hold other IRA assets, you'll be affected by what's called the pro rata rule. Under this rule, the IRS looks at your total IRA holdings to determine your tax bill when you do the conversion; the tax you pay depends on your ratio of assets that have already been taxed to those that have not. Let’s say you have $45,000 in a rollover IRA and $5,000 in your new nondeductible IRA. That means your ratio of taxable/tax-free assets in your total IRA is 9/1. Upon conversion of that new $5,000 traditional IRA, you'd owe taxes on $4,500 of income, because 90% of your total IRA pool consists of money that has not been taxed. You'll run into the same issue if you try to execute a backdoor IRA and you also have traditional IRA assets on which you've taken a tax deduction; ditto if you have made nondeductible contributions but a big share of your IRA balance consists of appreciation. In both cases, the pro rata rule would affect the taxes due when you convert.

A Backdoor IRA Should Always Be Off-Limits if You Have Traditional IRA Assets: The preceding example illustrates the tax treatment if you undertake a backdoor IRA and have a lot of money in a traditional or rollover IRA that has never been taxed. If you have a rollover IRA and participate in a company retirement plan that permits it, you can roll that money into the 401(k) before executing the backdoor Roth IRA. In doing so, those dollars wouldn't be part of the calculation of taxes due under the pro rata rule.

Once You Go Backdoor, You Can Readily Make Additional Roth Contributions: One other common misconception about backdoor IRAs is that once you do one, you can make additional Roth contributions. Unfortunately, this is true only if your income falls below the Roth IRA eligibility thresholds in future years, or if you no longer participate in a company retirement plan. If that's the case, you can make a Roth contribution outright. All others, however, will have to go through the same motions to make additional Roth contributions, first contributing to a traditional IRA and then converting to a Roth.

All Roth IRAs Give You Easy Access to Your Cash: Flexibility is one of the key benefits to having a Roth IRA. If you make direct contributions (that is, your entry point into a Roth isn't through converting), you can withdraw your contributions (but not your earnings) at any time without owing tax or a penalty. But if you get into a Roth IRA via conversion, you're governed by a different set of rules. To avoid the 10% penalty on early withdrawals of the amounts you've converted, you need to hold those assets in your Roth IRA for five years, you need to be age 59 1/2, or you need to meet other exceptions.

Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation.

Year-End Portfolio Review: Rebalancing

Finding the right frequency for rebalancing is a personal decision that rests on a number of factors. Here's an overview of what to bear in mind.

Tax Status of Investments: Rebalancing involves peeling back on winners, which in turn could result in taxable capital gains if the sales occur within taxable accounts. Investors whose assets are mostly in taxable accounts may want to err on the side of less-frequent rebalancing. On the flip side, the tax costs of rebalancing aren't a concern for investors who hold assets mostly in tax-sheltered accounts.

Other Costs of Trading: Commissions, for example. Investors who use a commission-based broker or buy or sell by themselves on a commission-based platform may consider rebalancing less frequently. Those who do not use a broker can view transaction costs as less of an impediment to rebalancing.

Time Commitment: A more frequent monitoring and rebalancing approach requires a greater amount of time than a laissez-faire tack. For example, retirees who have the time to commit to more frequent oversight (and won't incur tax and transaction costs to rebalance) can take a more hands-on approach. For busy investors, it's fine to check up annually.

Time Horizon/Risk Tolerance: The key benefit of rebalancing is in the realm of risk management, not potential return enhancement. By extension, investors with shorter time horizons and more limited risk tolerance may want to tightly police their asset allocations versus their targets. Longer-term investors, meanwhile, can employ a more hands-off approach.

This information is provided for informational purposes only and should not be construed as tax advice. Consult your tax advisor for advice regarding your personal situation.

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