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YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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Making a positive impact on as many lives as I can.

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Eileen and I have made the following points to our clients many times, but it bears repeating - take loans from your 401(k) at your own risk, as the hit to your nest egg may be greater, and last longer, than you think.

Household debt is on the increase, and some people are tapping their nest eggs, too, with many people borrowing against their retirement accounts. Some borrowers tap these funds to buy "something special", or to use to pay for a vacation.

Borrowing against your 401(k) is rarely a good idea, nor is taking a full liquidation when you leave the employer. With a loan, you may try to rationalize that the interest you pay is to yourself, so the loan does not cost you anything. But if you're earning 8% or 10% on the investments in your 401(k) and paying 4.25% interest on the loan, you're reducing your return by about 5 percentage points, plus all of the compounded growth on those earnings. For those people that had outstanding loans during 2013, they missed out completely on potential gains of over 30% on many of the stock type choices in their accounts, and that's lost money that will never be recovered. Additionally, borrowers often stop contributions while loans are outstanding, compounding the long-term hit to their nest egg.

Another big problem with the above situation, is that you repay the loan with **after**-tax money, which will then get taxed for a second time when you withdraw the money at retirement. These interest payments are NOT categorized as after-tax contributions. Finally, if you leave your job for ANY reason, you'll have to pay the loan back, typically within 60 days of leaving. If you cannot pay it back by the deadline, you'll owe tax on the balance, and if you are too young, a 10% penalty as well.

So don't borrow from your 401(k). Don't take full distributions when you leave without rolling it over to an IRA or another Qualified Plan. And if this does not affect you, pass it on to others who may be in a position of making this mistake.

Please schedule an appointment with us to review these accounts.

If you are not receiving our monthly e-Newsletter, please check your spam filter to make sure that both my e-mail address (steven.feiertag@LPL.com) and Eileen's e-mail address (eileen.feiertag@LPL.com) are being delivered.
We always appreciate referrals from our satisfied clients. Please consider referring your friends, business partners, and family members. We welcome the opportunity to serve the people you care about. All of your information will be kept confidential, and the time we devote to serving them will not dilute the time needed to serve you. Please visit our website (www.stevenfeiertag.com) and if you like what you see, pass this on to your contacts. Thank you for your continued business and support.

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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.

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/legal professional to discuss your personal situation.

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10 Stock Market Questions for 2015

With 2015 almost here, this week we pose and respond to 10 key stock market questions for 2015. Look for more on these and other topics throughout the year. We bring 2014 to a close with this *Weekly Market Commentary*. Look for our next edition on January 5, 2015. Happy New Year!

Q1: Does the drop in oil prices mean a sharp slowdown in growth is coming?

We don't think so. Overall, we estimate that the $50-plus drop in the price of WTI Crude Oil since June 2014 may boost U.S. gross domestic product by roughly 0.5%. The drop in oil has many beneficiaries, including consumers (who save about $1.4 billion for each 10 cent drop in gasoline prices), airlines, and manufacturers who benefit from access to cheaper fuel. Although some overseas economies--Russia in particular--are hurt by lower oil prices, oil importers such as China and Japan benefit. Lower oil prices will slow the U.S. energy boom and capital investment in the sector but will not stop it.

Q2: Will the Federal Reserve (Fed) end the bull market?

This is unlikely. Although the likely start of interest rate hikes in late 2015 may contribute to an increase in stock market volatility, history has shown that stocks have subsequently performed well when the Fed started to hike rates in response to better growth. During the nine economic expansions over the past 50 years, the S&P 500 has performed well around the first Fed rate hike, suggesting the Fed is unlikely to derail the market next year. The first rate hike has historically come only about halfway through economic cycles and well before bull markets have ended. (See our *Outlook 2015: In Transit* publication for details.)

Q3: Will valuations prevent U.S. stocks from a seventh straight positive year?

Valuations for the S&P 500 remain slightly above the long-term average price-to-earnings ratio (PE) of between 16 and 17 times trailing earnings, indicating a slightly expensive market. However, given that valuations have a poor record of timing market tops, and considering our positive earnings outlook, we do not expect above-average valuations to lead to an end of the bull market. As noted in our *Outlook 2015: In Transit* publication, we expect high-single-digit earnings growth to drive stock prices higher next year, supported by 3%-plus U.S. gross domestic product (GDP) growth, stable profit margins, and low interest rates, accompanied by little change in PEs.*

Q4: Is a potential European recession a risk to U.S. stocks?

Europe is teetering on the brink of another recession as the Eurozone struggles to return to reasonable growth, which leads us to favor U.S. markets over developed foreign markets, despite prospects for quantitative easing from the European Central Bank (ECB) next year. But we do not expect the continent's malaise to disrupt the U.S. stock market much, if at all, in 2015. Even without help from Europe, we expect the global economy to grow slightly faster in 2015 than it did in 2014 (when Europe helped very little). U.S. companies have managed the slowdown in Europe well thus far, helped by the relatively limited amount of revenue (about 15%) derived from the Eurozone. (See our two-part *Weekly Market Commentary*, "Don't Fight the ECB?" from September 15 and 22, 2014.)

Q5: Will EM outperform the U.S. in 2015 after underperforming for four years?

This is possible, but we would expect outperformance to come more from the latter part of the year. We continue to favor U.S. stocks over emerging markets (EM) as 2015 begins, but compelling valuations, better growth prospects, and the potential for more stimulus efforts should set up a very attractive entry point for EM next year. We would like to see evidence of sustained improvement in relative performance compared with the U.S. before becoming more positive on EM, which could come from stable oil prices and a pickup in earnings growth. (See our *Weekly Market Commentary*, "Emerging Markets Opportunity Still Emerging," from November 17, 2014.)

Q6: Will Washington help (or hurt) the stock market?

We expect the policy environment to be broadly supportive in 2015, and we believe that Republican control of Congress could have meaningful impact. We see tax reform as possible, albeit piecemeal, which the market should welcome. The Affordable Care Act (ACA) is unlikely to be repealed, but it will likely be changed, which could create investment opportunities in healthcare. Bank regulations may be eased. Energy policy may encourage faster development and more exports. And 2015 is the third year of the presidential cycle, which has historically been good for stocks. We also do not expect a disruptive debt limit fight this spring. (See our *Weekly Market Commentary*, "Favorable Policy Environment for Stocks in 2015," from December 8, 2014.)

Q7: After topping all equity sectors in 2014, will healthcare deliver again in 2015?

Healthcare has been the top-performing sector in 2014 with a nearly 30% return (according to the S&P 500 Health Care Index), and we expect another good year in 2015. The sector has benefited from robust innovation that has driven

significant biotech and, to a lesser extent, pharmaceutical gains. New development and increased demand related to broader insurance coverage under the ACA have helped drive double-digit earnings gains each quarter this year and will likely do so again in the fourth quarter, based on Thomson Reuters consensus estimates. We find the sector's combination of strong earnings, technical momentum, and still reasonable valuations to be potentially attractive as the business cycle ages.

Q8: Does the sharp sell-off in energy present an attractive buying opportunity?

Despite significant underperformance, we suggest patience for several reasons. Neither OPEC nor U.S. producers have shown interest in reducing supply. The U.S. supply overhang remains significant. It will take some time for demand to respond to lower prices. Valuations are not yet compelling, given the dramatic reduction in sector earnings estimates as oil prices fell and industry capital spending plans were cut back. And from a technical perspective, after the long-standing price range between $80 and $110 failed to hold, the latest bounce has not provided enough technical evidence for us to forecast a sustainable turn in relative performance.

Q9: Will small caps stage a comeback?

We think so, but we do not expect it to be lasting. The good news for small caps is that they are more U.S. focused than their large cap counterparts and valuations have become more reasonable after recent underperformance (though they are still a bit high). Small caps should also benefit from a continued healthy credit environment, as small companies are more credit dependent. As 2015 progresses, we expect a possible leadership shift toward large caps--one that may possibly be sustained during the latter part of the business cycle.

Q10: Will active management begin to add value in 2015?

Despite several disappointing years, we expect active managers may perform better in 2015. Managers in general should benefit from improved performance from the cyclical equities that they tend to favor, and from corresponding weaker returns for the most interest rate sensitive sectors that tend to be under-owned by fund managers as bond market strength possibly abates. Potentially increased stock market volatility should help provide more opportunities. Greater dispersion among individual stocks is likely to increase the potential opportunities for active managers.

**As noted in the Outlook 2015: In Transit, LPL Financial Research expects GDP to expand at a rate of 3% or higher, which matches the average growth rate of the past 50 years. This is based on contributions from consumer spending, business capital spending, and housing, which are poised to advance at historically average or better growth rates in 2015. Net exports and the government sector should trail behind.*

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets, as well as weather, disease, and regulatory developments.

The PE ratio (price-to-earnings ratio) is a valuation of a company's current share price compared with its per-share earnings. A high PE suggests that investors are expecting high earnings growth in the future, compared with companies with a lower PE.

International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.

Investing in specialty markets and sectors, such as healthcare or financials, carries additional risks, such as economic, political, or regulatory developments that may affect many or all issuers in that sector.

Small cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the small cap market may adversely affect the value of these investments.

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.

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.

Stock investing involves risk including loss of principal.

INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P 500 Health Care Index comprises those companies included in the S&P 500 that are classified as members of

the GICS healthcare sector.

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