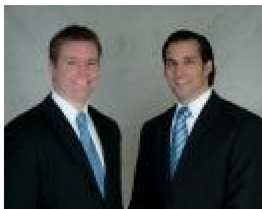
Clear Financial Group

YOUR FINANCIAL FUTURE

Your Guide to Life Planning

February 2016



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Five Smart Reasons to Keep Saving for Retirement

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Business Owners: Cash Management Is Key to Unlocking Financing Opportunities

Funding your company's growth is a big step that involves many decisions. For lenders, the decision to fund a company is often influenced by how well a business owner manages the firm's cash flow.

Do You Know Who Your Beneficiaries Are?

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Surf Safely: Protect Yourself From Online Scams

Worried about the safety of your personal information while you access the Internet? You should be. Cyber crime is serious business. Learn what steps to take to protect your finances and your good name while online.

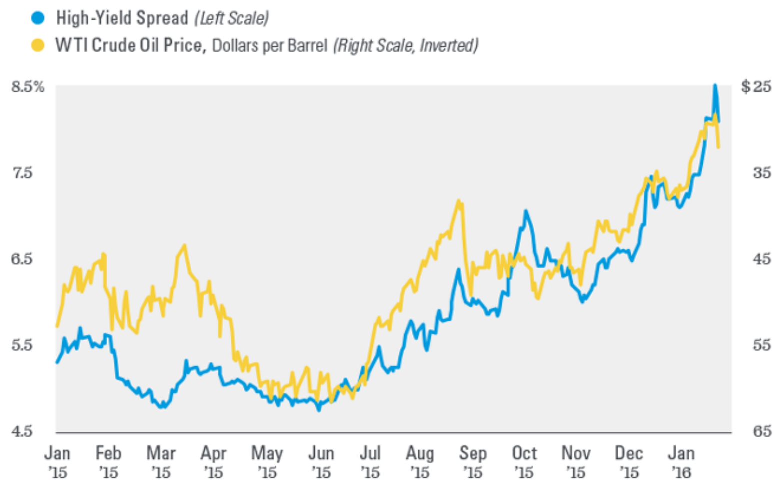
KEY TAKEAWAYS

- High-yield bond price declines have been exacerbated by rising default expectations, which we believe may have gone too far.
- The fear prevalent in the high-yield market may have created a unique opportunity for those who can tolerate near-term volatility until fundamentals return to the forefront.

TOUGH START FOR HIGH-YIELD

Additional oil price declines, oil-related default fears, growth concerns, and a general aversion to lower-quality bonds have combined to pressure high-yield bonds at the start of 2016. However, justified or not, oil continues to be the primary driver of high-yield performance. The price of oil and the average yield advantage, or spread, of high-yield bonds to comparable Treasury bonds have moved in tandem, especially since the final quarter of 2015 [Figure 1].

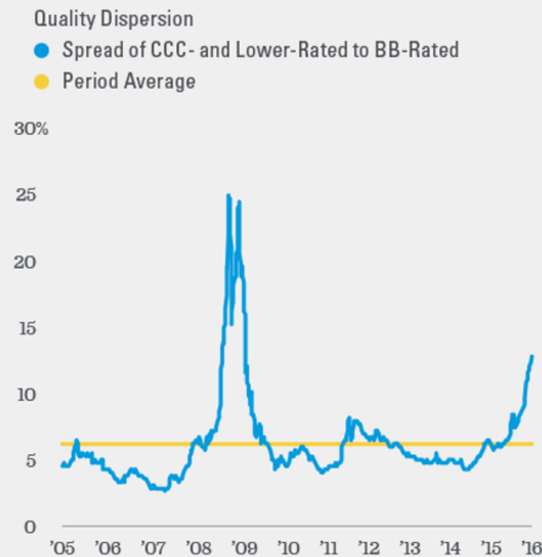
Investors are demanding the largest risk premiums for the lowest-rated segments of the high-yield bond market since early 2009. This pattern emerged in the fourth quarter of 2015 but has continued into the new year, with spreads on CCC- and lower-rated bonds to BB-rated bonds continuing to widen in 2016 [Figure 2].



Source: LPL Research, Barclays U.S. Corporate High Yield Index, Bloomberg 01/25/16

Past performance is no guarantee of future results.

2 DISPARITY BETWEEN THE UPPER- AND LOWER-RATED SEGMENTS OF HIGH-YIELD IS THE GREATEST SINCE 2009



Source: LPL Research, BofA Merrill Lynch Index data 01/25/16

BB-rated measured by the BofA Merrill Lynch BB-B U.S. High Yield Constrained Index; CCC- and lower-rated measured by the BofA/ Merrill Lynch U.S. High Yield CCC and Lower Rated Constrained Index.

Past performance is no guarantee of future results.

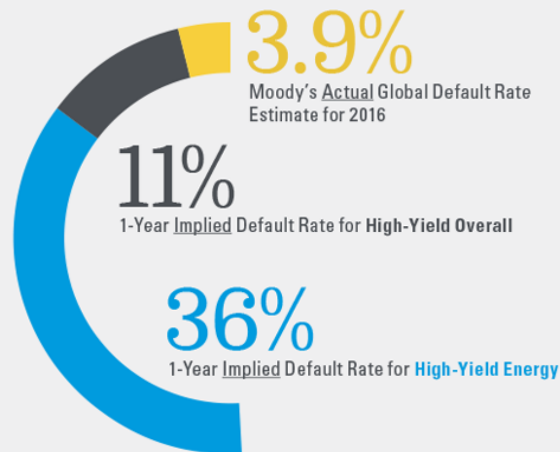
Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument.

BRACING FOR THE WORST

High-yield bond price declines have been exacerbated by rising default expectations, which we believe may have gone too far. The fundamental footing of high-yield bonds has not changed materially but market default expectations have priced in a lot of bad news [Figure 3]. Using current Treasury yields and high-yield bond prices and yields, we can construct market-implied default expectations. Based on current levels, the market-implied default rate for the overall high-yield market is 11% for one year, and a cumulative 43% default rate over five years.

Perhaps more startling are the implied default expectations for high-yield energy: 36% defaults over a one-year time frame and a cumulative 89% default rate over five years. Default expectations like these paint an overly dire picture and would likely need to be justified by a recession. In contrast, Moody's has forecast a 3.9% global default rate by the end of 2016. In our view, a greater rise to 4.0-4.5% is plausible but would still be well shy of the 11% currently implied by market pricing.

3 DEFAULT EXPECTATIONS HAVE BECOME OVERLY PESSIMISTIC



Source: LPL Research, Moody's, Barclays Index data 01/25/16

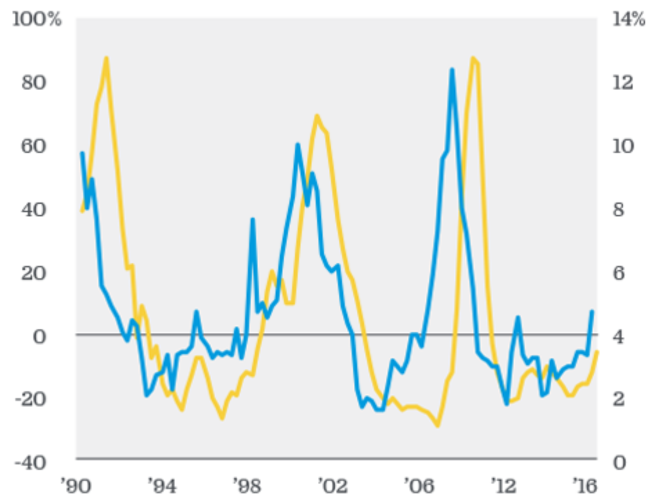
Overall high yield measured by the Barclays U.S. Corporate High Yield Index; high-yield energy measured by the Barclays Corporate U.S. Corporate High Yield Energy Index.

Market-implied default rates can help determine if the market looks attractive at current valuations. Actual results will vary.

LEADING INDICATOR ON TAP

One of the better leading indicators of defaults and high-yield bond performance, the quarterly Federal Reserve Senior Loan Officer Survey (FSLO), will be released on Monday, February 1, 2016. The FSLO shows the percentage of banks either tightening or loosening lending standards and has been a very good leading indicator of defaults [Figure 4]. When lending standards become too tight, credit to the economy may be choked off and defaults increase. Conversely, loose or moderate lending standards help limit defaults. As the modified adage goes, "a rolling loan gathers no loss."

The previous release in early November 2015 showed a slight tightening by banks, which partially explains the increase in yield spreads. Standards would have to tighten further to help justify current high-yield valuations, however. Therefore, the upcoming quarterly release of the FSLO on February 1 could serve to either partially justify the default fears priced into the market, should tightening accelerate, or confirm that spreads may have increased beyond levels justified by fundamentals.



Source: LPL Research, Federal Reserve, Moody's 01/25/16

Past performance is no guarantee of future results.

SCENARIO ANALYSIS

Scenario analysis can help illustrate the potential range of outcomes for high-yield in the coming year given the current cheaper valuations. As shown in Figure 5, assuming no change in valuations (i.e., yield spreads) and a modest 0.5% (50 basis points) increase in interest rates, the hypothetical one-year forward return for high-yield is a modest 4.5%. If interest rates remain at their current level and yield spreads do not change, high-yield would have a total return of 6.7%. On the other hand, a 1.0% (100 basis points) spread tightening (which still would not reverse the increase in yield spreads) translates to an expected 11.1% return in the next year, a significant increase.
In this hypothetical illustration, the high-yield risk-reward looks attractive.

5 THE RISK-REWARD TRADE-OFF LOOKS ATTRACTIVE FOR HIGH-YIELD BONDS AT CURRENT VALUATIONS

Total Return, %	Interest Rate Shift, Basis Points						
Spread Change, Basis Points	-75	-50	-25	0	25	50	75
500	-12.0	-13.1	-14.2	-15.3	-16.3	-17.4	-18.5
400	-7.6	-8.7	-9.8	-10.9	-12.0	-13.1	-14.2
300	-3.2	-4.3	-5.4	-6.5	-7.6	-8.7	-9.8
200	1.2	0.1	-1.0	-2.1	-3.2	-4.3	-5.4
100	5.6	4.5	3.4	2.3	1.2	0.1	-1.0
0	10.0	8.9	7.8	6.7	5.6	4.5	3.4
-100	14.4	13.3	12.2	11.1	10.0	8.9	7.8
-200	18.8	17.7	16.6	15.5	14.4	13.3	12.2
-300	23.2	22.1	21.0	19.9	18.8	17.7	16.6
-400	27.6	26.5	25.4	24.3	23.2	22.1	21.0
-500	31.9	30.8	29.7	28.7	27.6	26.5	25.4

Source: LPL Research, Barclays U.S. Corporate High Yield Index 01/25/16

Total returns are hypothetical and assume a parallel shift of the yield curve, no reinvestment interest income, and one-year holding period.

Actual results will vary.

CONCLUSION

The broad fundamental picture of the high-yield market remains relatively healthy in our view. Financial leverage among the average issuer has increased, which is a negative, but this is offset by interest coverage ratios that remain notably higher than prior periods of major default episodes that began in 2000 and 2007. Interest coverage is the number of times a company can cover its interest expense with its earnings before interest and taxes.

The primary risk for high-yield bonds remains a recession, in which case yield spreads may widen further, limiting potential returns. Continued weakness on negative sentiment remains another risk and could pressure prices lower due to illiquid trading conditions that accompany volatile periods. We don't believe, however, that the U.S. is entering a recession, based upon our analysis of economic data, and the fear prevalent in the market may have created a unique opportunity for those who can tolerate near-term volatility until fundamentals return to the forefront.

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.

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.

High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

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.

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

DEFINITIONS

Credit quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default.

Moody's is an independent, unaffiliated research company that rates fixed income securities. Moody's assigns ratings on the basis of risk and the borrower's ability to make interest payments.

INDEX DESCRIPTIONS

The Barclays U.S. Corporate High Yield Index measures the market of USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

The Barclays U.S. Corporate High Yield Energy Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

The BofA Merrill Lynch BB-B U.S. High Yield Constrained Index contains all securities in the BofA Merrill Lynch US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or Fitch), but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%.

BofA/Merrill Lynch U.S. High Yield CCC and Lower Rated Constrained Index represents the effective yield of the BofA Merrill Lynch U.S. Corporate C Index, a subset of the BofA Merrill Lynch U.S. High Yield Master II Index tracking the performance of U.S. dollar-denominated, below-investment-grade rated corporate debt publically issued in the U.S. domestic market. This subset includes all securities with a given investment-grade rating CCC or below. When the last calendar day of the month takes place on the weekend, weekend observations will occur as a result of month ending accrued interest adjustments.

This research material has been prepared by LPL Financial LLC.

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Tracking #1-461513 (Exp. 01/17)

Five Smart Reasons to Keep Saving for Retirement

Your retirement plan is one of the easiest -- and potentially most profitable -- ways to reach your retirement savings goal.

Juggling your personal finances can be a challenging task. There are mortgages and other regular monthly bills to pay, children to raise and educate, and "rainy day" funds to maintain for household and other emergencies. At times, even the best-organized budgets may become strained -- and yes, you may be tempted to cut down or even stop contributing to your employer-sponsored retirement plan. But think carefully before you act. Your retirement plan is one of the easiest -- and potentially most profitable -- ways to reach your retirement savings goal.

Here are five "smart" reminders of the power of your plan.

#1: The Tax Advantages

When you save on a pretax basis, your retirement savings plan offers two strong tax incentives: Your contributions are based on your pretax pay, which means every dollar you put into the plan reduces your current taxable income. In addition, your contributions (and investment earnings) grow and are reinvested, generating more tax deferred earnings. Over time, this process (called compounding) can accelerate the growth potential of your original investment. If you stop contributing to your plan you may limit its full growth potential.

#2: Retirement May Last 20 Years or Longer

Healthier lifestyles and medical advances are extending life expectancies -- and retirement income requirements. Experts have long suggested that individuals generally need 70% to 80% of their preretirement income in retirement. Yet, at best, these are estimates based on generalities. The fact is that expenses won't necessarily decline in retirement -- they may just shift. For example, mortgage payments and college tuition may be ancient history, but spending on health care and leisure is likely to rise. In addition, other unforeseen expenses may arise such as caring for a sick relative or helping to fund a grandchild's education.

#3: The (Potential) Employer Match

You don't want to miss out on the opportunity to reap extra "free" savings in employer-matched contributions. Not all employers provide matching contributions, and such contributions may be subject to vesting periods and other rules. But if your employer does offer a match, make sure you contribute enough to take full advantage of this added bonus.

#4: The Uncertain Future of Social Security

The continuing debate about the future of Social Security leaves many of us wondering what role it will play in our own retirements.

Currently there are two trends working against one another that may put a tremendous burden on the Social Security system in the years to come.

- First, today there are roughly three workers contributing to the Social Security system for every beneficiary. By 2034, that ratio will drop to roughly 2 to 1.[1]
- Second, the number of individuals reaching age 65 each year will continue to rise dramatically.

Due to this demographic shift, there will be fewer young workers to generate taxes that support Social Security, Medicare, and other government programs at a time when more of us will be needing them. The bottom line? It's reasonable to assume that you can expect less government support as you grow older.

#5: Inflation Can Erode Your Savings

Inflation is essentially the increase in the price of goods and services. The most common measure of that increase is the Consumer Price Index, or CPI. The CPI compares current and past prices on a "basket" of common expense categories, including housing, transportation, food, and clothing.

It may be easy to overlook inflation when preparing for your financial future. After all, an inflation rate of just 2% to 3% -- which we have been experiencing for the past several decades -- may not seem worth noting, until you consider the impact it can have on your purchasing power over the long term. Consider that at just a 3% inflation rate, a $100,000 nest egg today would be worth only $40,101 in today's dollars 30 years from now.

We all want retirement to be a time of enjoyment, not financial hardship. To better ensure your own financial future, keep your retirement plan working for you.

[1] *Source: Social Security Administration, Fast Facts & Figures About Social Security, 2015.*

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1-320051

Business Owners: Cash Management Is Key to Unlocking Financing Opportunities

Among the many criteria that banks and other financiers use to assess the creditworthiness of a business, cash flow -- or the business's ability to generate enough cash to service its debt, pay taxes and dividends, and the down payment associated with any capital expenditures -- often tops the list.

For many business owners, taking their company to the next level of growth is an exhilarating but stressful task. Deciding on a growth strategy -- which areas of the business to fund, what pace of growth to aim for, whether investments should be allocated to short-term or longer-term needs -- is just half of the equation. The other, equally critical part of the process is finding a funding source for their growth plan.

Focus on Cash Flow

Among the many criteria that banks and other financiers use to assess the creditworthiness of a business, cash flow -- or the business's ability to generate enough cash to service its debt, pay taxes and dividends, and make the down payment associated with any capital expenditures -- often tops the list.

Other related factors that financiers typically look for include:

- Prudent levels of debt and/or adequate capitalization
- Positive trends in the company's balance sheet and income statement
- Management's experience and track record of success
- Its industry -- how it is performing and projections for the future

Needs-based Financing Options

When banks are the chief lender, the range of financing options is fairly broad, from lines of credit and term loans to real estate mortgages and Small Business Administration (SBA) loan programs. To a large extent, the needs of the business will determine the type of financing option that is most appropriate. For instance, if a company has modest or stable growth, its short-term working capital, equipment, and real estate needs typically can be met with traditional bank credit products, such as lines of credit or term loans. For short-term needs, such as financing a temporary increase in inventory, a line of credit would be indicated. For longer-term uses, such as funding the purchase of equipment or real estate, term loans generally will fit the bill.

If, on the other hand, a company is experiencing rapid growth, the solution may be to move outside of traditional bank products to asset-based lenders and/or SBA government programs.

Funding Caveats

Keep in mind that many lenders tend to avoid requests for financing that appear to be speculative in nature. For instance, if a business wants to expand its warehouse space to accommodate new inventory that it thinks it can sell but doesn't actually have customers waiting to buy, that would be considered a speculative financing request. Another might be a request for funding to increase inventory in the short-term on the hunch that the business can make a quick profit by market timing.

Other "red flags" that could bring a funding request to an abrupt halt with a prospective lender include inadequate liquidity to service all cash needs (e.g., principal payments, taxes, and rent/mortgage), excessive debt, and an inconsistent earnings history.

Keep in mind that even though these -- or other -- caveats may put a funding request in jeopardy, with proper explanation and/or documentation, it is possible for such hurdles to be overcome. If, for example, a company lost money last year due to non-recurring expenses but presents legitimate reasons for the loss, it is possible that the lender may still consider the business owner's request.

It has been said before, but it bears repeating: Cash management is the key to starting and running - and growing - a business. To manage cash effectively, you need to anticipate future cash needs and then ensure that you have the liquidity when you need it. A financial plan with revenue and expense projections is an invaluable tool in managing this essential part of a business.

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1-452831

Do You Know Who Your Beneficiaries Are?

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.

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.

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Tracking # 1-387030

The Internet Crime Complaint Center reported complaints resulting in $782 million in losses in 2013.

Surf Safely: Protect Yourself From Online Scams

Online criminals continuously change their operating methods. That's why it is crucial that Internet users keep up on the latest scams and the steps to take to protect their personal and financial information when online.

Here is an overview of two of the most widespread techniques being used to commit online fraud, as well as some practical tips to protect your personal security.

Phishing: This is one of the most popular methods of online fraud. Phishing, or "spoofing," is a scheme whereby users are sent fake emails that claim to be from a legitimate source. The email directs the user to a counterfeit website where they are asked to update personal information, such as passwords and user names or credit card, Social Security, and bank account numbers. By hijacking brand names of banks, online retailers, and credit card companies, phishers often convince recipients to respond.

Crimeware: This is a class of computer programs designed exclusively to facilitate online identity theft. Cyber thieves use a variety of techniques to steal confidential data through crimeware, including:

- Secretly planting keystroke loggers onto a user's computer to collect sensitive data -- such as login and password information for online bank accounts -- and reporting the data back to the thief.
- Redirecting a user's browser to a counterfeit website controlled by the thief even when the user types the website's proper address in the address bar.
- Stealing passwords cached on a user's system.

This type of scam received national attention several years ago when it was revealed that business executives at major U.S. firms were the targets. The "bait" used to lure the recipient was an official-looking subpoena from the U.S. District Court in San Diego. When recipients clicked on the document to view it, software designed to collect keystroke data was secretly installed on their computers. It was estimated that thousands of people fell victim to this scam.

Play It Safe

The Federal Bureau of Investigation estimates that online scams were responsible for approximately $782 million in losses in 2013.[1] With the number and sophistication of online scams increasing, there are some basic recommendations you can follow to help avoid becoming a victim.

- **Don't recognize it? Don't open it.** Do not open any email, email attachment, or website link from suspicious or unknown senders.
- **Don't give out your info.** Be wary of any e-mail that asks for personal information such as passwords or account numbers. Similarly, avoid any email that promises a prize or gift in exchange for completing a survey or answering questions online.
- **Blast those pop-ups.** These small windows typically appear on or behind the window that you are currently viewing. While many are harmless advertisements, some may contain viruses or software that can monitor your Web activity.
- **Be sure sensitive data is encrypted.** Always ensure that you are using a secure website -- one that employs state-of-the-art encryption technology -- when submitting credit card data or other sensitive personal information.
- **Check your accounts.** Regularly log in to your online accounts and check your bank, credit, and debit card statements to ensure all transactions are legitimate.
- **Keep your system up-to-date.** If your computer's operating system is more than five years old it may not offer the same degree of protection as newer models. Most system manufacturers issue updates and security patches on their websites or automatically through your Internet provider. Similarly, be sure to use the latest Web browser and anti-virus software.

Finally, if you think you've fallen victim to a scam, report it. The FBI has a Cyber Operations unit devoted to fighting cyber crime. Their Internet Crime Complaint Center is at www.ic3.gov.

[1] *Federal Bureau of Investigation, Internet Crime Complaint Center, 2013 (most recent available).*

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