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William R. Chambers III, CLU, ChFC, MSFS, CFP®
Chief Executive Officer

Wendy R. Chambers, MBA, CFP®
Chief Relationship Officer

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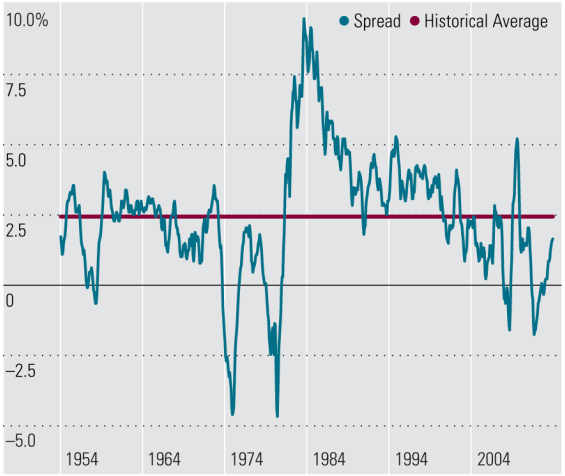
Fed Policy, Inflation, and Interest-Rate Risk

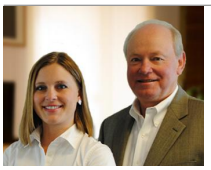
With interest rates still relatively low, the question today is by how much they are likely to rise. Historically, the 10-year Treasury bond has yielded, on average, about 2.5% over the inflation rate. With inflation at 1.5%, the 10-year Treasury bond typically would yield about 4.0%. In an attempt to support economic and job growth, the Federal Reserve has been purchasing long-term Treasury and mortgage-backed bonds to artificially keep interest rates low. As long as the Fed kept this asset purchase program up, 10-year Treasury yields remained relatively low. However, the Fed has begun tapering, and interest rates are likely to rise significantly in the near future. Both investors and advisors should be aware of the implications of rising interest rates.

Spread of 10-Year Treasury Over Inflation



Treasury bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest.

Source: 10-year Treasury yield data from the Federal Reserve. Inflation is represented by the Consumer Price Index, three-month rolling average, and data from the Federal Reserve. The time period displayed in the chart is January 1954 to December 2013.



(920) 661-9000
www.Chambers-Financial.com

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Chambers Financial Group is a comprehensive financial services firm that was founded in 1984 with the goal of assisting our clientele with a holistic financial view in mind. We integrate many of the financial areas in your life, including investment planning, portfolio management, retirement planning, estate and tax planning.

We are an independent family practice dedicated to providing objective, responsible financial planning assistance to a broad range of clients. Our objective is to help our clients live the life they wish to, both now and in the future. Our clients' success is our success.

We believe in building long-term relationships with our clients. We believe in the value of building trust and confidence with long range plans to achieve your financial goals. We give unbiased, honest advice and believe patience along with discipline is crucial in the achievement of defined investment goals.

Five Estate-Planning Tasks That You Shouldn't Put Off

Keeping tabs on the estate-planning rules during the past few years has been a little like watching Olympic-level table tennis: The action moves quickly, and it's difficult to keep up. However, no matter how laws and rules change, there are a few basic tasks that are actually pretty evergreen and that everyone should execute. Five such estate-planning to-dos are outlined below.

1) Update Beneficiary Designations. Even people who have never set foot in an attorney's office may have laid the groundwork for an estate plan if they filled out beneficiary designation forms for their financial accounts. Those designations, in fact, trump other estate-planning documents when it comes to distributing assets, so it's worthwhile to periodically review them to make sure they're up-to-date with your current situation—if you've gotten married or divorced, for example. (How would your spouse feel if you inadvertently left your 401(k) account to your brother?) People who have drafted estate-planning documents such as wills should ask their attorneys to help them review beneficiary designations to ensure that they sync up with other estate-planning documents.

2) Designate Legal Guardians. Parents of young children should designate legal guardians who will look after their children if the parents should die or otherwise be unable to care for their minor children. It is important to focus the discussion on actual child-rearing abilities and willingness to do the job. What is not helpful is to get hung up on hurting anyone's feelings or bypassing friends or family members who might expect to be guardians but aren't the best choice. Most importantly, a guardian should be willing and able (emotionally and financially) to take care of your children if the need arises, so an essential step is to discuss the responsibilities with the potential guardian beforehand.

3) Create a Living Will and Last Will and Testament. A living will tells your health-care providers and your loved ones how you would like to be cared for if you should become terminally ill and unable to express your wishes yourself. It is called a "medical directive" in some states. This document details your views toward life-support equipment. Not to be confused with a living will, a last will and testament details how you'd like your assets and possessions distributed after your death.

4) Draft Powers of Attorney. A basic estate plan should also address what would happen to your affairs if you are still living but incapacitated. A power of attorney is a document that specifies who will handle your affairs if you are unable to do so. You'll need to draft two separate documents: one that names your power of attorney for health-care decisions and another for financial matters (often called a durable power of attorney). The person you entrust with your power of attorney for health care will, ideally, live in close geographic proximity to you. The person you name on your durable power of attorney form should be detail-oriented and comfortable with financial matters.

5) Name an Executor. Your executor will gather all of your assets after you're gone and make sure they are distributed in accordance with your will. Ideally, your executor will be someone who's comfortable with numbers and good with details, and will also be able to find the time to work on your estate. It's common to name family members as executors, but in more complicated situations it might be preferable to use a professional, such as a bank trust officer, to serve as your executor. It's a good idea to tell your executor that you've named him or her, and also provide details on how to obtain access to important documents, such as your will and a master directory detailing all of your accounts.

This information is for informational purposes only and should not be considered as legal or financial planning advice. Please consult a legal and/or financial professional for advice specific to your individual circumstances.

Five Strategies to Maximize Your IRA

More and more companies have eliminated traditional pension plans, and individual retirement accounts are becoming a cornerstone of many workers' retirement plans. So it only makes sense to take some time to make sure you are taking maximum advantage of these plans. Follow these strategies and tips to make the most of your IRAs.

Strategy 1: Start early

Lots of young people (and sometimes their parents) don't realize that they can contribute to an IRA. It is highly advisable to get IRA contributions working as soon as possible. Sooner is better than later because there will be more time for that money to compound over time.

Strategy 2: Plan which investments to hold in your IRA

A number of factors will affect your "asset location" decisions—which assets to hold in your taxable accounts versus tax-sheltered ones like IRAs. Income-generating assets, such as many bonds, may be better held inside your IRA. Meanwhile, stocks typically generate much less income, and that dividend income is taxed at a much lower rate—generally 15%. (Long-term capital gains from stocks enjoy the same rate.) This rule of thumb won't always hold true; if you are young and have a long time until retirement, you'll want growth investments (such as stocks) in your IRA.

Strategy 3: Convert part or all of your traditional IRA to a Roth IRA

The Roth IRA has one huge advantage over the traditional IRA: You never have to take required minimum distributions (RMDs) at any age. And when you choose to take distributions, they are generally tax-free. That's because the Roth IRA requires you to pay taxes up front, either when you contribute the money or when you convert from your traditional IRA to a Roth IRA. And the earnings in that Roth IRA continue to grow tax-free for your beneficiaries after your death. Investors of all income levels are able to convert their traditional IRA assets to Roth assets. It is important to note that those who do elect to make the conversion will have to pay taxes.

Strategy 4: Stretch out your IRA by choosing the right beneficiary option

One of the biggest benefits of IRAs (and other tax-deferred accounts) is the ability to defer paying taxes until a later date. That allows the full value of your account to compound over time. Many investors choose to keep the tax-deferral advantage going as long as possible. This process is known as "stretching out" the value of your IRA. The longer you can delay paying taxes, the greater the possibility that your IRA will grow to an even higher balance.

As part of your overall estate planning, you'll need to think about whom you want to name as your beneficiary. Naming a spouse as beneficiary to your IRA allows him or her to roll over your IRA after your death into his or her own IRA and name a new beneficiary. If you can't name a spouse as your IRA beneficiary, name a child or grandchild. If you have multiple beneficiaries (several children), consider splitting your IRA into separate accounts, each with one beneficiary.

Strategy 5: Use your RMDs to rebalance

If you have a traditional IRA, you'll need to take annual distributions once you are 70 1/2 years of age. Use those distributions as part of your rebalancing process. Once retired, you should have several years' worth of expenses in cash equivalents. Withdraw your living expenses from those reserves. Occasionally you'll need to replenish those accounts. Use your IRA distributions as part of that process.

Be sure to consult with a financial advisor or tax professional for the latest rules and regulations. Past performance is no guarantee of future results. Stocks are not guaranteed and have been more volatile than bonds.

Simple Steps for Late Savers

The sooner you start putting aside money for retirement, the more you might have once that highly anticipated day arrives. Saving for college tuition, purchasing a new home, unforeseen medical expenses, or life's other necessities, surprises, or even enjoyments can cause investors to postpone saving. Starting the retirement planning process late in one's life can be daunting, but it is by no means impossible.

Crunch the Numbers: The first step to getting back on track is to put together a budget—this will force you to focus on your financial situation and can serve as a road map to success. Once you have outlined all of your expenses, simply subtract the total from your net income. The result will give you a clear indication of how much you can potentially save, and also help you identify areas in which you may be spending too much.

Cut Any Unnecessary Expenses: There are essential expenses that cannot be eliminated: food, electricity, etc. However, most people can identify some areas, like entertainment, that are not vital to one's existence and can be cut back on. The more areas that you can trim will lead to more money that can be earmarked for retirement.

Take Advantage of Catch-up Contributions: Catch-up contribution limits allow investors age 50 and above to increase their contribution. For example, they can make an extra contribution of $5,500 to their 401(k) in 2014, equating to a maximum contribution of $23,000. IRA catch-ups are $1,000 in 2014, leading to a maximum contribution of $6,500.

Chambers Financial Group
2010 Velp Ave
Green Bay, Wisconsin 54303

www.Chambers-Financial.com

Tel:(920) 661-9000
Fax:(920) 661-9009