CHAMBERS
FINANCIAL GROUP

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

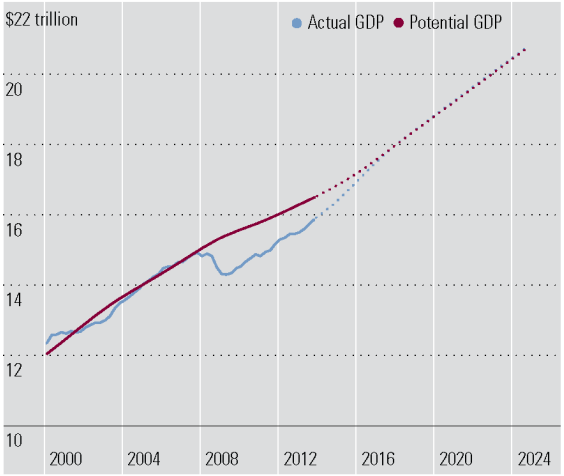
Wendy R. Chambers, MBA, CFP®
Chief Relationship Officer

October 2014 | Investment Updates from CFG

Output Potential Gap Suggests Limited Inflation Risk

Outside of food and drugs, the prospect of high inflation remains dim. The output gap, which compares current and forecasted Gross Domestic Product levels to the estimated potential of the economy, remains at one of its widest levels in history. Every major, sustained bout of inflation in the Post-War era has occurred when the economy has been running above its theoretical capacity. The Congressional Budget Office, the keeper of this key metric, believes that the economy will not operate up to its full capacity until 2017, as shown in the chart. CBO considers unemployment, demographics, capital investment, and productivity, making it a much more comprehensive measure than simpler capacity utilization metrics. Besides the output gap, Morningstar economists believe that monetary and fiscal policy, as well as commodity prices, could also influence inflation levels going forward.

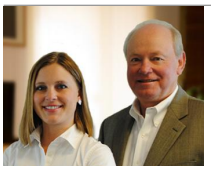
Potential Versus Actual GDP



This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results. Source: Congressional Budget Office.

Planning · Consulting · Management

MORNINGSTAR



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

Chambers Financial Group

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.

Active or Passive Strategies: How to Choose?

It's one of the most important—maybe even the most important question—in the fund world. It is possible for investors to reach their financial goals using either approach, or by blending the two. Using an all-index portfolio is generally a low-cost, low-maintenance way to go. On the other hand, investors can also buy and hold active funds; the key is doing their homework and having the discipline to stick with their active managers through the inevitable rough patches.

Here is a quick review of some of the key attributes investors often seek, as well as how index and active funds deliver on each.

Low Expenses. Although not all index funds and ETFs have low costs, and not all active products are pricey, expenses on passively managed products are generally lower than the expenses of active funds. That expense advantage is a big reason that broad-market index funds have delivered solid returns versus market benchmarks over long periods of time in the past.

Simplicity/Ease of Use. Looking to build a minimalist, low-maintenance portfolio? It's simple to do so by arriving at a target asset-allocation mix, then populating it with just a handful of broad-market-tracking index funds or ETFs. In contrast, by mixing and matching actively managed funds, investors may end up with overlap, and it can be difficult to maintain tight control over the portfolio's asset allocation. Index -fund investors also don't have to worry about operational issues such as manager departures.

Tax Efficiency. Although index funds and ETFs aren't universally tax-efficient (bond index-fund investors may owe taxes on their income just as active bond-fund owners would, and some ETFs have socked their investors with big tax bills), broad stock market-tracking vehicles have tended to be pretty tax-efficient over time. Because active fund managers might trade more often, there's a greater likelihood that an active fund will pass taxable capital gains on to its shareholders.

Ability to Outperform the Market. Index funds have, on average, delivered fine returns for their shareholders, with the majority topping their category peers', sometimes by wide margins, over short and long time frames. That's a huge selling point. But investors hung up on "beating the market" may not get there with index funds. If an index fund is properly tracking its benchmark, the return will be the benchmark's return, minus expenses. Active funds, by contrast, offer at least the prospect of beating the market.

Ability to Adjust to Changing Market Conditions. One of the key potential benefits of an active approach is that a manager usually has the latitude to make changes based on market conditions. For example, he might decide to hold cash because stocks look expensive and he can't find things to buy, thereby helping to protect investors if stocks sell off. Alternatively, a manager could take advantage of weak markets to load up on beaten-down securities that short-term investors have discarded. If an index-fund investor wishes to be opportunistic, meanwhile, she'll have to do it herself.

Investors should bear a few caveats in mind before embracing an active fund for its flexibility and opportunism, however. Many active managers might not be all that active, and different managers have different skill levels in selecting investments. Finally, it's worth noting that index-fund investors can easily add an element of active management by periodically rebalancing their portfolios.

Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses. Investors should be read the prospectus and consider this information carefully before investing or sending money.

To vs. Through

Target-date funds may differ in their investment approach: Target-date funds can be designed to build up savings "to" an individual's target retirement date, with allocations becoming more conservative at retirement. This approach results in funds adopting higher allocations to fixed income investments at/towards the retirement date, and then a static portfolio thereafter. Contrary to this approach is the principle of "through" retirement funds. Here the target-date fund is designed to help investors through retirement, with the goal of accumulating wealth long after the retirement (target) date. Funds adopting this approach may have higher allocations to stocks at the target date, followed by a declining allocation 10 to 30 years post retirement.

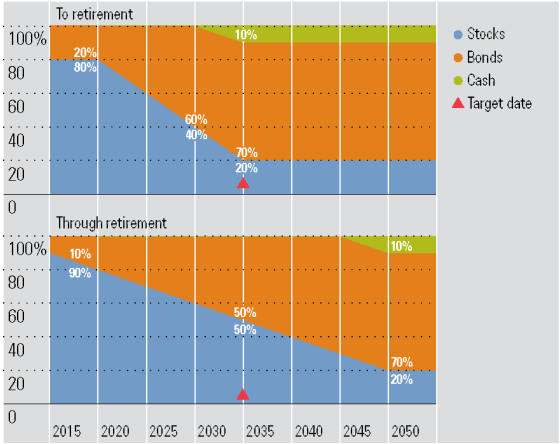
It is important to understand that these two approaches may differ vastly in risk and reward trade-off due to the way the fund invests in stock and bond investments over time.

Choose the strategy that best fits your risk profile: The image above illustrates the difference in allocations to stocks and bonds in both a "to" and "through" approach. Both images display changes in allocation to stocks and bonds over a 40-year period, for example starting in 2011, with a target retirement date of 2031. The "to" approach emphasizes the static glide path while the "through" approach emphasizes a declining glide path.

Retirees face the most risk at the target date, as it marks the start of a period in which savings are needed to fund their retirement. A more aggressive approach (sloping glide path) may improve the chances of preserving retirement savings but is not without the added risk. A conservative approach (static glide path) is designed primarily to build savings. Consult your financial advisor to evaluate a fund that best fits your needs in retirement.

Past performance is no guarantee of future results. Diversification does not eliminate the risk of experiencing investment losses. This is for illustrative purposes only and not indicative of any investment. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes. The target date is the approximate date when investors plan to start withdrawing assets. The investment objectives of each fund are adjusted over time to become more conservative as the target date approaches. The principal value of the fund(s) is not guaranteed at any time, including at the target date. Investing in target-date funds always involves risk, including the possibility of losing the entire investment. The allocations used in this example are hypothetical and do not represent any particular investment.

Comparison of Hypothetical Target Date Glide Paths in "To" Versus "Through" Funds



A glide path illustrates an investment's change in target asset allocation along specific time points as an investor approaches, reaches, and settles into retirement. It graphically depicts how the allocation shifts from a more aggressive investment approach to a more conservative one as the investment nears its target maturity date.

An investment in a target-date fund is not guaranteed, and you may experience losses, including losses near, at, or after the target date. There is no guarantee that the fund will provide adequate income at and through retirement. Consider the investment objectives, risks, charges, and expenses of the fund carefully before investing.

Target-date funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses. Investors should read the prospectus and consider this information carefully before investing or sending money.

Get a Tax-Smart Plan for In-Retirement Withdrawals

The following sequence may make sense for retirees to preserve the tax-saving benefits of tax-sheltered investments for as long as possible.

1) For retirees over age 70 1/2, the first stop for withdrawals are those accounts that carry required minimum distributions, or RMDs, such as Traditional IRAs and company retirement plans such as 401(k)s (to avoid paying penalties).

2) For retirees who are not required to take RMDs or have taken their RMDs and still need cash, turning to taxable assets may be an option. A good start may be selling assets with the highest cost basis first and then moving on to those assets where cost basis is lower (and the tax hit higher). Relative to tax-deferred or tax -free assets, these assets have the highest costs associated with them. However, taxable assets could also be valuable to tap in later retirement years because retirees will pay taxes on withdrawals at their capital gains rate, which is generally lower than the ordinary income tax rate.

3) Finally, after taking RMDs or tapping taxable assets, retirees still in need of cash may want to further tap company retirement-plan accounts and IRAs (Roth IRA assets last.)

401(k) and IRA plans are long-term retirement-savings vehicles. Withdrawal of pretax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Direct contributions to a Roth IRA are not tax-deductible but may be withdrawn free of tax at any time. Earnings may be withdrawn tax and penalty free after a 5 year holding period if the age of 59 1/2 (or other qualifying condition) is met. Otherwise, a 10% federal tax penalty may apply. Please consult with a financial or tax professional for advice specific to your situation.

Chambers Financial Group
2010 Velp Ave
Green Bay, Wisconsin 54303

www.Chambers-Financial.com

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