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The Financial Solutions Advisor

Inside this issue:

Economic & Market Perspectives

2013 began with many focusing on what could go wrong. We had just gone through the "fiscal cliff" debacle, investors were worried about the European debt crisis, and the outlook for U.S. and global economic growth looked uncertain.

Economic growth was slow but stable during a year in which the federal government shutdown lasted for 16 days and Detroit filed for bankruptcy. The unemployment rate fell to the lowest in five years, from 7.9% to approximately 7.0%, as a result of modest job growth and declining labor participation (a 35-year low). A significant U.S. economic headwind was fiscal tightening through a substantial tax increase and spending restraint (sequestration).

Monetary policy was supportive of global growth, though in late spring, the Federal Reserve contemplated tapering its fixed income purchases, causing a 100-basis point rise in interest rates and creating turmoil in India and Brazil. Although global growth was softer than expected, equity markets performed well. Emerging markets experienced weakness in growth, commodity prices, credit and liquidity. Europe began to emerge from recession with reduced tail risks, Japan benefited from monetary and fiscal policy stimulus, and China engineered a successful soft landing despite remaining imbalances.

Instead, however, 2013 proved to be a year when most major risks were avoided and the table was set for a strong investing year. The economic recovery continued (if unevenly), inflation remained low and, notwithstanding a mid-year jolt, interest rates rose (but not disruptively).

In this environment, equity markets enjoyed an impressive year, with U.S. stocks up more than 25% and the major indexes hitting new records along the way. International markets also notched solid results, with the exception of emerging markets, which struggled with uneven growth and structural imbalances. Fixed income markets were choppy in 2013, with a long-awaited rise in interest rates finally occurring. As Treasury yields advanced nearly a full percentage point, bonds experienced a rare negative total return for the year (prices move in the opposite direction of yields).

We expect most of the macro factors that existed in 2013 to persist in 2014: improving (but still relatively slow) economic growth, very low inflation and slowly rising interest rates.

Continued on page 4

2013 Returns

S&P 500	*32.39%*
NASDAQ	*36.92%*
Russell Small Cap	*38.82%*
Russell Mid Cap	*34.76%*
MSCI EAFE	*22.78%*
MSCI World	*26.68%*
Barclay US Agg	*-2.02%*
Barclay Muni.	*-2.55%*

Fewer Bargains: Valuations by Percentile vs. Historic Norms, October 2013

Sources: Thomson Reuters and Black Diamond Investment Institute

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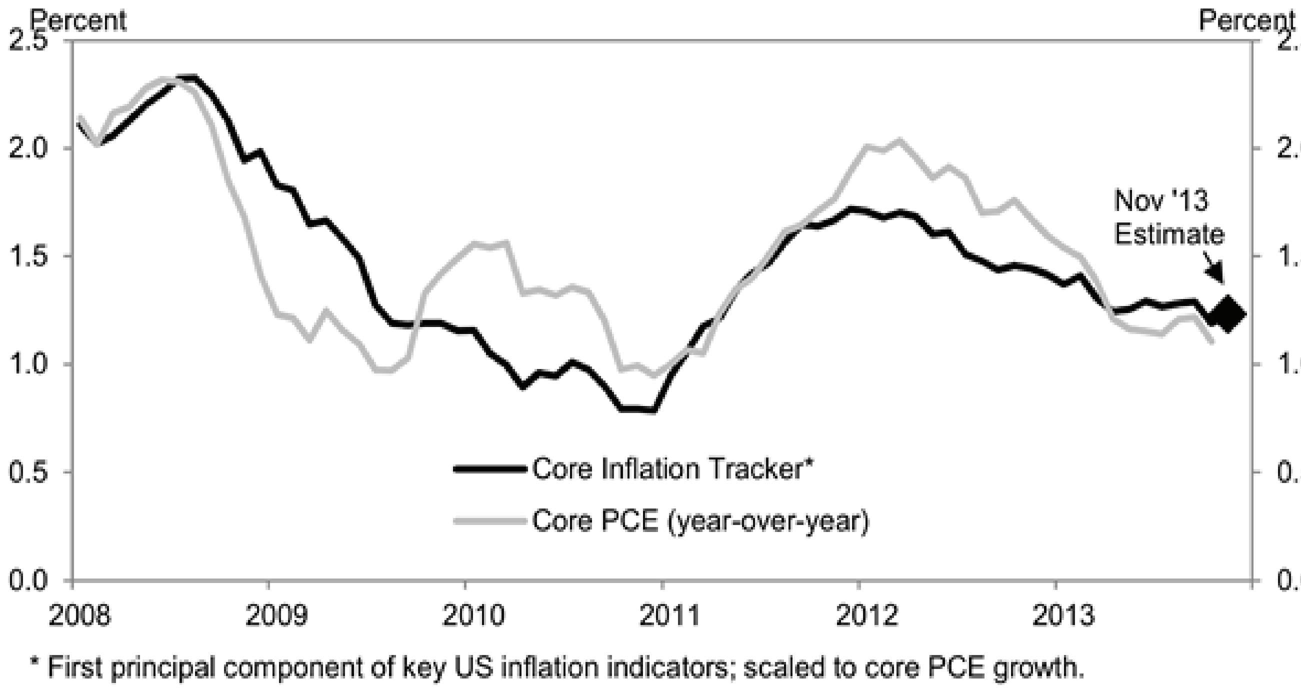
Inflation Remains Low



Source: Goldman Sachs Global Investment Research

Social Security and Medicare Update

New figures announced

The Social Security Administration (SSA) has announced that Social Security and SSI beneficiaries will receive a 1.5% cost-of-living (COLA) adjustment for 2014. According to the SSA's announcement, after the COLA adjustment, the estimated average retirement benefit will rise from $1,275 in 2013 to $1,294 in 2014.

The Centers for Medicare & Medicaid Services (CMS) has also announced next year's Medicare costs. The standard monthly Medicare Part B premium will be $104.90 in 2014, the same as in 2013. However, beneficiaries with higher incomes (individuals with taxable incomes of more than $85,000 and couples with taxable incomes of more than $170,000) will pay more than $104.90 per month because they must pay an income-related surcharge.

Other important Social Security and Medicare figures are listed below.

2014 Social Security figures

- The amount of taxable earnings subject to the Social Security tax (called the maximum taxable earnings limit) will increase to $117,000 from $113,700 in 2013.
- The annual retirement earnings test exempt amount for beneficiaries under full retirement age will increase to $15,480 from $15,120 in 2013. If a beneficiary has earnings that exceed the exempt amount, $1 in benefits will be withheld for every $2 in earnings above the exempt amount.
- The annual retirement earnings test exempt amount that applies during the year a beneficiary reaches full retirement age will increase to $41,400 from $40,080 in 2013. If a beneficiary has earnings that exceed this amount, $1 in benefits will be withheld for every $3 in earnings above the exempt amount.
- The amount of earnings needed to earn one Social Security credit will increase to $1,200 from $1,160 in 2013.

2014 Medicare figures

- The Medicare Part B deductible will be $147, the same as in 2013.
- The monthly Medicare Part A premium for those who need to buy coverage will cost up to $426, down from $441 in 2013. However, most people don't pay a premium for Medicare Part A.
- The Medicare Part A deductible for inpatient hospitalization will be $1,216, up from $1,184 in 2013. Beneficiaries will pay an additional daily co-insurance amount of $304 for days 61 through 90, up from $296 in 2013, and $608 for stays beyond 90 days, up from $592 in 2013.
- Beneficiaries in skilled nursing facilities will pay a daily co-insurance amount of $152 for days 21 through 100 in a benefit period, up from $148 in 2013.

Should You Roll Your 401(k) to an IRA?

If you're entitled to a distribution from your 401(k) plan (for example, because you've left your job, or you've reached age 59½), and it's rollover-eligible, you may be faced with a choice. Should you take the distribution and roll the funds over to an IRA, or should you leave your money where it is?

Across the universe

In contrast to a 401(k) plan, where your investment options are limited to those selected by your employer (typically mutual funds or employer stock), the universe of IRA investments is virtually unlimited. For example, in addition to the usual IRA mainstays (stocks, bonds, mutual funds, and CDs), an IRA can invest in real estate, options, limited partnership interests, or anything else the law (and your IRA trustee/custodian) allows.*

You can move your money among the various investments offered by your IRA trustee, and divide up your balance among as many of those investments as you want. You can also freely move your IRA dollars among different IRA trustees/custodians--there's no limit on how many direct, trustee-to-trustee IRA transfers you can do in a year. This gives you the flexibility to change trustees as often as you like if you're dissatisfied with investment performance or customer service. It also allows you to have IRA accounts with more than one institution for added diversification.

However, while IRAs typically provide more investment choices than a 401(k) plan, there may be certain investment opportunities in your employer's plan that you cannot replicate with an IRA. And also be sure to compare any fees and expenses.

Take it easy

The distribution options available to you and your beneficiaries in a 401(k) plan are typically limited. And some plans require that distributions start if you've reached the plan's normal retirement age (often age 65), even if you don't yet need the funds.

With an IRA, the timing and amount of distributions is generally at your discretion. While you'll need to start taking required minimum distributions (RMDs) from your IRA after you reach age 70½ (and your beneficiary will need to take RMDs after you die), those payments can generally be spread over your (and your beneficiary's) lifetime. (You aren't required to take any distributions from a Roth IRA during your lifetime, but your beneficiary must take RMDs after your death.) A rollover to an IRA may let you and your beneficiary stretch distributions out over the maximum period the law permits, letting your nest egg enjoy the benefits of tax deferral as long as possible.

The RMD rules also apply to 401(k) plans--but a special rule allows you to postpone taking distributions until you retire if you work beyond age 70½. (You also must own no more than 5% of the company.) This deferral opportunity is not available for IRAs.

Note: *Distributions from 401(k)s and IRAs may be subject to federal income tax, and a 10% early distribution penalty (unless an exception applies). (Special rules apply to Roth 401(k)s and Roth IRAs.)*

Gimme shelter

Your 401(k) plan may offer better creditor protection than an IRA. Assets in most 401(k) plans receive virtually unlimited protection from creditors under a federal law known as ERISA. Your creditors cannot attach your plan funds to satisfy any of your debts and obligations, regardless of whether you've declared bankruptcy. (Note: individual (solo) 401(k) plans and certain church plans are not covered by ERISA.)

In contrast, traditional and Roth IRAs are generally protected under federal law only if you declare bankruptcy. Federal law currently protects your total IRA assets up to $1,245,475 (as of April 1, 2013)--plus any amount you roll over from your 401(k) plan. Any creditor protection your IRA may receive in cases outside of bankruptcy will generally depend on the laws of your particular state. If you're concerned about asset protection, be sure to seek the assistance of a qualified professional.

Let's stay together

Another reason to roll your 401(k) funds over to an IRA is to consolidate your retirement assets. This may make it easier for you to monitor your investments and your beneficiary designations, and to make desired changes. However, make sure you understand how Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) limits apply if you keep all your IRA funds in one financial institution.

Fools rush in

- While some 401(k) plans provide an annuity option, most still don't. By rolling your 401(k) assets over to an IRA annuity, you can annuitize all or part of your 401(k) dollars.
- Many 401(k) plans have loan provisions, but you can't borrow from an IRA. You can only access the money in an IRA by taking a distribution, which may be subject to income tax and penalties.

IRA and Retirement Plan Limits for 2014

Many IRA and retirement plan limits are indexed for inflation each year. On October 31, 2013, the IRS issued the inflation-adjusted numbers for 2014. While many limits remain the same, several important limits have increased.

For example, the elective deferral limit for 401(k), 403(b), and 457(b) plans remains at $17,500 in 2014 (the catch-up limit remains unchanged at $5,500). The maximum IRA contribution remains at $5,500 in 2014 (and the catch-up limit remains unchanged at $1,000). However, the phase-out ranges for determining the deductibility of traditional IRA contributions, and for determining whether an individual can contribute to a Roth IRA, have increased for 2014. In addition, the maximum amount that can be contributed to a defined contribution plan has increased from $51,000 to $52,000 for 2014.

At Financial Solutions you'll find a fee-only Registered Investment Advisor (RIA) committed to putting your interests and your needs first, eliminating the commissions and self-serving incentives that get in the way of solid, successful financial planning and investment management.

Chart of Interest: Bubble Watch

The market gauge measures US corporate values, leverage and investor complacency by first dividing EV by EBITDA and then expressing the total as a ratio of the VIX index of equity market implied volatility.

Bubble talk is bubbling up. Should we be worried? Not yet, according to a market gauge that measures US corporate valuations, leverage and investor complacency. This simple tool divides enterprise value (EV) by earnings before interest, taxes, depreciation and amortization (EBITDA). We then divide the total by the volatility index to gauge investor complacency.

The ratio of the two is the key. High valuations combined with low volatility can make for a lethal mix. This market gauge sounded the alarm well before the Great Financial Crisis (but underclubbed the dot-com bust). See the chart on the right.

Where are we today? Valuations are roughly in line with their two-decade average (and leverage is lower). Yet volatility is hovering just above two-decade lows. The result: The market gauge stands well above its long-term average, but is far short of its precrisis highs. A reduction has to be driven by a falling EV/EBITDA ration if volatility stays low. The longer markets rerate without profits, the great the risk of a bubble.

Sources: Bloomberg and BlackRock

Economic & Market Perspectives *Continued from Page 1*

That said, we do expect growth to pick up modestly, both in the United States and globally. Although the Fed has begun its long awaited taper, policy remains accommodative and supportive of the economy. Lower energy prices and an improving housing market also represent tailwinds. Slightly better growth should lead to an increase in real interest rates. We do not believe rates will rise rapidly or dramatically, partly because the Fed will likely keep the fed funds rate anchored at close to zero through 2014, but we do think yields will climb modestly.

Equities may not be as inexpensive as they were a year ago, but they remain more attractive than bonds and cash. There are some important caveats to this view, however: 1) we do expect more volatility in 2014 than we saw in 2013, 2) even though equities may still advance, run-ups since 2009 and throughout 2013 have reduced many strategists forward view for annual returns to mid- to high-single digits and 3) we prefer to add to equity positions after a 5% or greater pullback in the S&P 500. International stocks are worth investor attention, as they appear more reasonably priced than U.S. equities. We would also encourage investors with longer-term time horizons to consider emerging markets despite their recent underperformance, as they too offer compelling value.

With rates likely to rise and inflation still low, we would avoid long-dated bonds, specifically, long-dated Treasuries and Treasury Inflation Protected Securities (TIPS). Instead, we advocate sticking with short duration, high yield and floating rate bonds.

Sources: BlackRock, Nuveen

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