2Q14

The Financial Solutions Advisor

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Economic & Market Perspectives

Value Stocks May Be Coming Into Favor

Although the broad equity averages may not be moving much lately, we are witnessing a significant sector and style rotation. In particular, some of last year's high-flying segments of the market are now starting to come under pressure. The U.S. biotechnology industry, for example, was up roughly 65% last year, but is now down 15% from its peak in February.

The market appears to be experiencing a rotation away from growth and into value styles. Over the past month, large-cap value stocks have gained roughly 1.25%, while large-cap growth has lost over 2%. This rotation is being driven in part by the fading of the momentum trading theme (which favored growth styles), but it is also a result of a growing discrepancy in relative valuations. As of the end of last month, growth stocks were trading at nearly a 40% premium to value stocks, significantly higher than the 10-year average of around 25%.

Should this rotation continue, one of the beneficiaries would likely be U.S. large- and mega-cap stocks, which are trading at a significant discount to small- and mid-cap areas of the market.

We expect more modest U.S. market gains and more market volatility in coming months given ongoing geopolitical turmoil, Federal Reserve tapering and the still fragile environment in emerging markets. In addition, if U.S. economic numbers don't improve in coming months or if the geopolitical situation worsens, stocks and other risky assets may become more vulnerable.

Waiting for Growth Forecasts to Ignite

As the first quarter comes to a close, the promised growth surge has not arrived. Tensions between Russia and Ukraine may continue to hold back stocks and support government bonds in the near term. Market risks present in any bull market may need to be evaluated, such as taking profits and waiting until conditions become less over-bought and valuations improve, missing the rally.

Periodic corrections occur because bad news causes most investors to freeze and miss the opportunity to buy on weakness. The later stages of bull markets tend to be grinding and lack a new catalyst.

In contrast, during the early stages, monetary conditions ease and/or economic prospects suddenly brighten, providing a trigger to buy. Later stages also involve an extrapolation of the business and earnings cycle, rather than a powerful spark that ignites sentiment. Patience is warranted in the middle of a trend, and we remain pro-growth in our investment stance.

Investor confidence should improve when economic activity increases, which should occur in developed countries in the near term and could spread to parts of emerging markets later in the year.

Data surprises appear to have bottomed, weather normalization should boost growth, financial conditions remain supportive and leading indicators for capital spending have improved.

2014 Returns

S&P 500	*1.81%*
NASDAQ	*0.42%*
Russell Small Cap	*1.12%*
Russell Mid Cap	*3.53%*
MSCI EAFE	*0.66%*
MSCI World	*1.26%*
Barclay US Agg	*1.84%*
Barclay Muni.	*3.32%*

As a result, we expect economic activity will bounce back and provide 3% growth for the rest of 2014.

International Markets

The US stock market has done better than the world. Now, as we move through the rest of this bull market, that begins to equalize. Emerging markets are beaten up pretty badly and will probably get a bounce back. European stocks are starting to play catch-up.

Sticking with Short Duration Fixed Income

With rates likely to rise and inflation still low, we would avoid long-dated bonds. Instead, we advocate sticking with short duration, high yield and floating rate bonds.

Sources: BlackRock, Nuveen

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What Can I Do To Protect My Username and Password from Computer Hackers?

At one time, computer hackers were viewed as a few rogue individuals who mainly worked alone. Today, many hackers are part of highly sophisticated networks that carry out well-organized cyber attacks. Unfortunately, these online security breaches can result in your username and password information being compromised.

Whenever you enter your personal information online, you'll want to make sure that you create a strong password to protect that information. Some tips for creating a strong password include:

- Avoid creating simple passwords that have a connection to your personal identity (e.g., date of birth, address) or that can be found in the dictionary
- Create a password that uses a nonsense word/random alphanumeric combination or an arbitrary, easy to remember phrase with mixed-up character types (e.g., upper/lower case, punctuation)
- Don't use the same password for multiple websites
- Use an online tool that allows you to test the strength of a password

If you have trouble keeping track of all of your password information or if you want an extra level of password protection, you may want to use some type of password management software. There are a variety of password managers on the market. Password managers typically work by using high-level encryption methods to store all of your online usernames and passwords on one secure server, using a single master password.

There are a few things you should consider when choosing a password manager. First, if you plan on needing your password information for use on various devices (e.g., tablet, smartphone), you will want to choose a password manager that has mobility features. In addition, some password managers offer added benefits such as web form fillers, which can come in handy if you do a lot of online shopping. Other features to look for include automatic log in and password generator capability.

Are You Ready to Retire?

Here are some questions to ask yourself when deciding whether or not you are ready to retire.

Is your nest egg adequate?

It's obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off of your retirement savings. The average American can expect to live past age 78. (Source: CDC, "Deaths: Preliminary Data for 2011") With future medical breakthroughs likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

When will you begin receiving Social Security benefits?

You can begin receiving Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born).

How will retirement affect your IRAs and employer retirement plans?

The longer you delay retirement, the longer you can build up tax-deferred funds in your IRAs - remember that you need compensation to contribute to an IRA. You'll also have a longer period of time to contribute to employer sponsored plans like 401(k)s--and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not yet fully vested.)

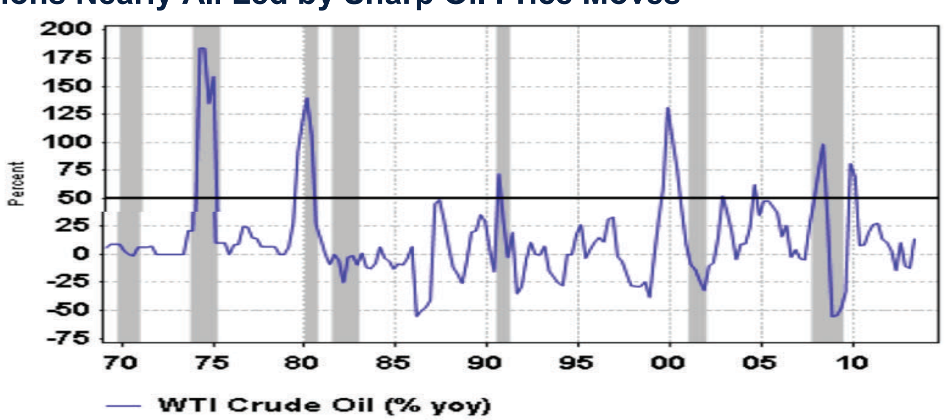
Will you need health insurance?

Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or a private individual policy--which could be an expensive proposition.

Is phasing into retirement right for you?

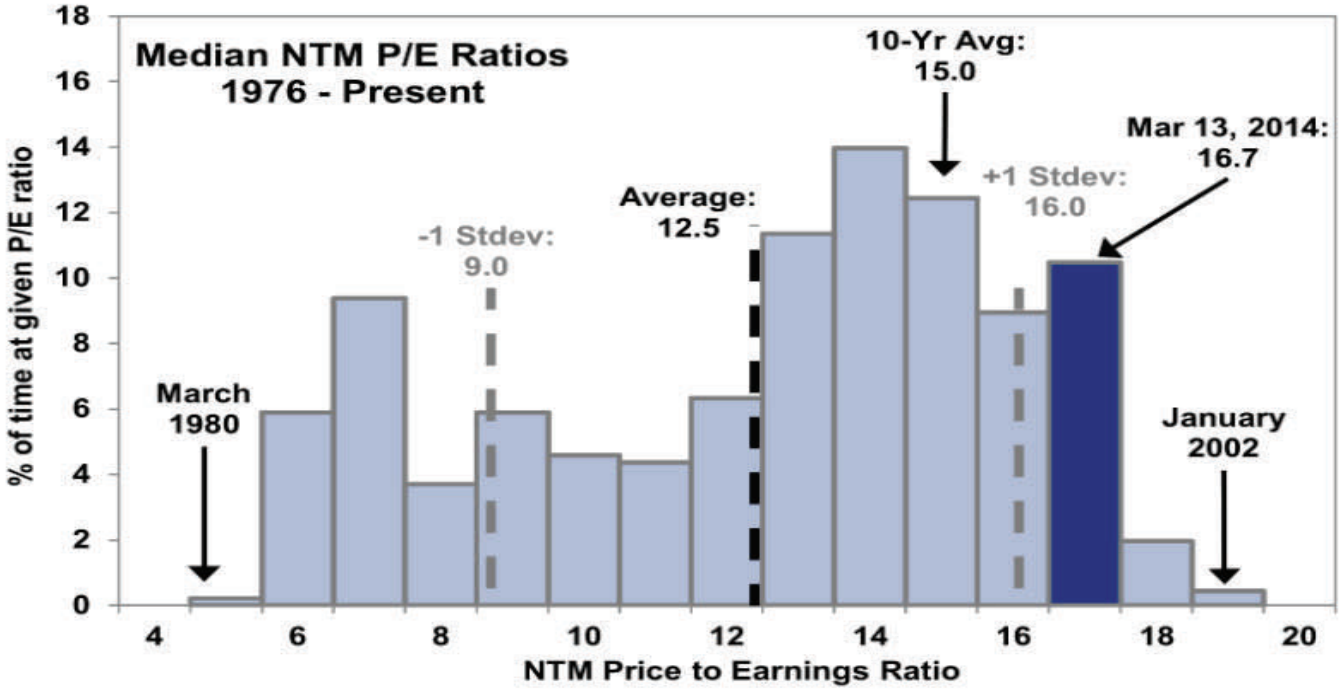
Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income and remain active and productive.

US Recessions Nearly All Led by Sharp Oil Price Moves



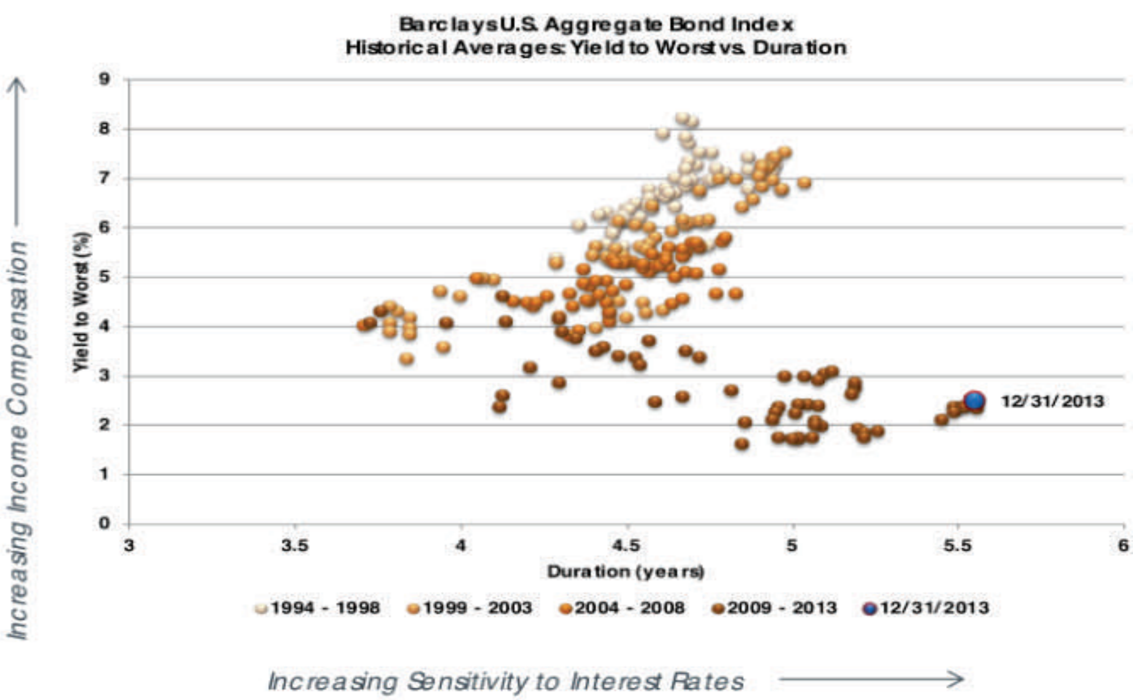
Sources: Citi Research and Reuters EcoWin

Distribution of median S&P 500 forward P/E ratios, 1976-Present



Sources: Compustat, I/B/E/S, FirstCall, and Goldman Sachs Global Investment Research

Coupon Income is Low, Bond Duration is High



Relative to historical periods, US bonds are offering limited coupon cushion with greater sensitivity to interest rates.

The 5.5 Duration suggests that a less than 50 bps jump in interest rates could wipe out an entire years worth of income.

Sources: Bloomberg, Barclays 12/31/2013

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529 Plans: College Savings Plans vs. Prepaid Tuition Plans

With college costs increasing every year and the prospect of too much student loan debt at the forefront of many families' minds, it's important to make college savings the cornerstone of any college financing plan.

Toward that end, 529 plans can be a smart way to build a college fund. People of all income levels can open an account. All contributions to a 529 plan grow federally tax deferred and are tax free if used to pay the beneficiary's qualified education expenses. There are two types of 529 plans: college savings plans and prepaid tuition plans. Both enjoy the same tax advantages, but there are major differences between them.

	College Savings Plan	**Prepaid Tuition Plan**
What is it?	A college savings plan is an individual investment account. You contribute money and direct your contributions to one or more of the plan's investment options, which typically range from conservative to aggressive in their degree of risk. Plans are offered by states.	A prepaid tuition plan is a pooled account. You contribute money and in exchange you receive a certain number of tuition credits, which can be redeemed in the future. Plans can be offered by either states (more common) or colleges.
Can nonresidents open an account?	Yes, college savings plans are open to residents of any state. And you can open an account any time of year.	No, state-sponsored plans are only open to state residents. However, college-sponsored plans are open to anyone. Generally, you can open an account only during open enrollment, which is once or twice per year.
Does the plan guarantee an investment return?	No, college savings plans offer a menu of investment options, and your account gains or loses value according to the investment performance of the options you've chosen. You could lose money investing in this type of plan.	Yes, prepaid tuition plans guarantee to cover a certain amount of tuition in the future based on the contribution you make today. However, some plans have been unable to meet their initial guarantees, so fully research any plan guarantee before investing money.
What education expenses does the plan cover?	Funds in a college savings plan can be used for undergraduate and graduate tuition, fees, room and board, books, and equipment at any accredited college in the United States or abroad.	Tuition credits in a state prepaid plan generally can be used only for undergraduate tuition and fees at in-state universities; tuition credits in a college prepaid plan can be used for undergraduate tuition and fees at member colleges. If the beneficiary attends a nonmember college, there are typically limits on how much the plan will cover.
When can withdrawals be made?	There is generally no time limit.	Tuition credits generally must be used by the time the beneficiary reaches age 30.
What fees and expenses are charged?	College savings plans typically charge an investment fee for each investment option, so be sure to take a close look at your investment choices. Some plans may also charge an initial new account fee, a flat annual maintenance fee, and a withdrawal fee if you decide to switch plans.	Prepaid tuition plans typically charge a flat enrollment fee, and may also charge more miscellaneous fees than college savings plans, such as fees for returned checks, beneficiary changes, or changes to the payment schedule.