3Q15 The Financial Solutions Advisor

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Economic & Market Perspectives

The Markets

As winter weather finally lost its chokehold on the U.S. economy, investors grew increasingly comfortable with the Federal Reserve's slow-and-steady approach to determine when to raise short-term interest rates. Historic closes were reached by the large-cap Dow (18351) and S&P 500 (2134), while the small-cap Nasdaq (5164) and Russell 2000 (1296) also reached all-time highs during the second quarter. Unfortunately, those gains were all but wiped out as the financial crisis in Greece affected markets domestically and around the world. Both the Dow and S&P 500 lost 0.88 points and 0.23 points respectively compared to the end of the first quarter. The Nasdaq and Russell 2000 still finished ahead of last quarter, but not by much.

U.S. Treasury prices declined from the first quarter, with corresponding yields making their biggest gains since 2013. The decrease in bond prices was largely attributable to increased consumer spending coupled with investor confidence in the equity markets, which encouraged more money shifting from bonds to equities. Lower unemployment rates along with a slowly improving economy are additional factors leading to lower prices/higher yields.

Oil prices grew to $59 a barrel during the quarter, pushing gas prices higher. Gold, meanwhile, also felt the effects of the global economy, finishing the quarter down at roughly $1,172 an ounce.

The Economy

- Globally, economic woes in Greece, China, and Puerto Rico serve to illustrate just how fragile the economy is in other parts of the world. The worsening financial crisis in Greece has caused markets to tumble across the globe. The declines came as Greece shut down its banking system and its central bank initiated actions to institute controls aimed at stopping money from leaving the country, which might otherwise cause banks to collapse.

China, which has been experiencing favorable market returns for several years, saw its stocks sink the most in five years after reports from several high profile analysts among other analysts warned that valuations had climbed too far. In response to the selloff in Chinese stocks, the People's Bank of China (the country's central bank) cut both its benchmark interest rates and the amount of reserves certain banks are required to hold. All this as the country continues efforts to promote an economy driven by private business and consumer spending rather than infrastructure (government-sponsored) outlays and exports.

Puerto Rico, with its economy ailing, has indicated that it cannot pay its debts. Puerto Rican bond holders are looking at significant losses, as the central government may run out of cash within a month.

- In spite of the latest financial upheaval in Europe, the domestic economy is showing continued signs of improving in the second quarter, following a similar trend begun at the end of the first quarter. Nevertheless, there are still several sectors lagging as described by Federal Reserve Chair Janet Yellen in her June update. Some of the factors that have led the Federal Open Market Committee to refrain from raising interest rates include lagging exports (primarily due to the strength of the dollar), continued weakness in the labor market, and subdued wage growth. In addition, if the global economic tumult hits the U.S., the Fed could further delay an interest rate hike.

- The revised estimate for the first quarter gross domestic product substantiates Chairperson Yellen's analysis of the economy. Several factors, including unusually severe weather, the West Coast port strike, and the strong dollar, are reflected in the GDP's first quarter contraction of 0.2%. Nevertheless, June's estimate is better than had been reported in May (-0.7%), with exports not lagging quite so far and consumer spending better than first estimated, which may be leading a favorable economy for the latter part of 2015.

- The second quarter saw an increase in consumers' income and spending. The Bureau of Economic Analysis reported consumer spending increased 0.9%, the largest increase since August 2009. Income increased 0.5% in May, following a similar 0.5% increase in April. The fact that more consumers are spending is indicative of

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2015 Returns

S&P 500	*1.23%*
NASDAQ	*4.42%*
Russell Small Cap	*4.75%*
Russell Mid Cap	*2.35%*
MSCI EAFE	*5.52%*
MSCI World	*2.63%*
Barclay US Agg	*-0.10%*
Barclay Muni.	*0.11%*

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Three College Savings Strategies with Tax Advantages

To limit borrowing at college time, it's smart to start saving as soon as possible. But where should you put your money? In the college savings game, you should generally opt for tax-advantaged strategies whenever possible because any money you save on taxes is more money available for your savings fund.

529 plans

A 529 plan is a savings vehicle designed specifically for college that offers federal and state tax benefits if certain conditions are met. Anyone can contribute to a 529 plan, and lifetime contribution limits, which vary by state, are high--typically $300,000 and up.

Contributions to a 529 plan accumulate tax deferred at the federal level, and earnings are tax free if they're used to pay the beneficiary's qualified education expenses. (In his State of the Union speech in January, President Obama proposed eliminating this tax-free benefit but subsequently dropped the proposal after a public backlash.) Many states also offer their own 529 plan tax benefits, such as an income tax deduction for contributions and tax-free earnings. However, if a withdrawal is used for a non-educational expense, the earnings portion is subject to federal income tax and a 10% federal penalty (and possibly state tax).

529 plans offer a unique savings feature: accelerated gifting. Specifically, a lump-sum gift of up to five times the annual gift tax exclusion ($14,000 in 2015) is allowed in a single year per beneficiary, which means that individuals can make a lump-sum gift of up to $70,000 and married couples can gift up to $140,000. No gift tax will be owed if the gift is treated as having been made in equal installments over a five-year period and no other gifts are made to that beneficiary during the five years. This can be a favorable way for grandparents to contribute to their grandchildren's education.

Also, starting in 2015, account owners can change the investment option on their existing 529 account funds twice per year (prior to 2015, the rule was once per year).

Note: *Investors should consider the investment objectives, risks, fees, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. Finally, there is the risk that investments may lose money or not perform well enough to cover college costs as anticipated.*

Coverdell education savings accounts

A Coverdell education savings account (ESA) lets you contribute up to $2,000 per year for a child's college expenses if the child (beneficiary) is under age 18 and your modified adjusted gross income in 2015 is less than $220,000 if married filing jointly and less than $110,000 if a single filer.

The federal tax treatment of a Coverdell account is exactly the same as a 529 plan; contributions accumulate tax deferred and earnings are tax free when used to pay the beneficiary's qualified education expenses. And if a withdrawal is used for a non-educational expense, the earnings portion of the withdrawal is subject to income tax and a 10% penalty.

The $2,000 annual limit makes Coverdell ESAs less suitable as a way to accumulate significant sums for college, though a Coverdell account might be useful as a supplement to another college savings strategy.

Roth IRAs

Though traditionally used for retirement savings, Roth IRAs are an increasingly favored way for parents to save for college. Contributions can be withdrawn at any time and are always tax free (because contributions to a Roth IRA are made with after-tax dollars). For parents age 59½ and older, a withdrawal of earnings is also tax free if the account has been open for at least five years. For parents younger than 59½, a withdrawal of earnings--typically subject to income tax and a 10% premature distribution penalty tax--is spared the 10% penalty if the withdrawal is used to pay a child's college expenses.

Roth IRAs offer some flexibility over 529 plans and Coverdell ESAs. First, Roth savers won't be penalized for using the money for something other than college. Second, federal and college financial aid formulas do not consider the value of Roth IRAs, or any retirement accounts, when determining financial need. On the flip side, using Roth funds for college means you'll have less available for retirement. To be eligible to contribute up to the annual limit to a Roth IRA, your modified adjusted gross income in 2015 must be less than $183,000 if married filing jointly and less than $116,000 if a single filer (a reduced contribution amount is allowed at incomes slightly above these levels).

And here's another way to use a Roth IRA: If a student is working and has earned income, he or she can open a Roth IRA. Contributions will be available for college costs if needed, yet the funds won't be counted against the student for financial aid purposes.

Economic and Market Perspectives *Continued from page 1*

their growing confidence in the economy. The University of Michigan's Consumer Survey jumped to 97.8, the highest it's been in about 12 years.

- More people are working and fewer are filing for unemployment insurance. The Bureau of Labor Statistics reports that the labor participation rate grew to 62.9%, non-farm payroll employment increased by 280,000, yet the unemployment rate was essentially unchanged on the year at 5.5%. Jobless claims are at historic lows with initial claims at 271,000 toward the end of June, while continuing claims held at 2.247 million, according to the Department of Labor.

Eye on the Quarter Ahead

All eyes will continue to focus on the financial crisis in Greece. Will the initial negative impact on the markets in response to Greece's shuttered banks, repayment default, and the prospect of the country's exit from the Eurozone continue to drive markets further into negative territory? Will the Federal Reserve provide more information on the timing of the anticipated interest rate hike? Will the dollar increase in strength, further softening domestic exports?

It's Complicated: Money and Happiness

Does more wealth lead to more happiness? Researchers have tackled this question for decades, and although the results have differed, one fact is certain: The relationship between money and happiness--or "well-being," as many researchers put it--is complicated.

Think before you spend

In their book, *Happy Money: The Science of Smarter Spending,* Professors Elizabeth Dunn and Michael Norton summarize their own and others' research. What they found is that it's not necessarily how much you make that matters to overall happiness (although that certainly contributes), but what you do with your money. They boiled down the findings to five "key principles of happy money."

1. Buy Experiences. Investing in memories can result in a more sustained level of happiness than buying a bigger house, a more luxurious car, or other material goods. Buying the latest technological gadget might elicit the kind of joy a child experiences opening a new toy on the holidays, but just like that new toy, the gadget loses its novelty with time--a principle psychologists refer to as "hedonic adaptation." On the other hand, experiences--even those that are fleeting or may initially provoke trepidation, such as hang gliding--create memories that help foster prolonged contentment.

2. Make It a Treat. While you're investing in those experiences, be sure to spread them out so they don't become expectations or habits. In this way, the novelty of each new experience will be fully realized. As the book says, "Abundance is the enemy of appreciation." This is also true with something as simple as a cappuccino. If you make it a daily ritual, it becomes a habit. If you instead substitute your daily coffee once a week with a froth-covered treat, then it becomes a reward to savor.

3. Buy Time. According to Dunn and Norton, individuals should ask themselves the question, "How will this purchase change the way I use my time?" For example, will it allow you to spend more time with your friends or family, or create more "to-dos" to clog your list? Will it free you up to participate in more activities you enjoy? Investing in products or services that allow you to spend time on the things you love will lead to greater overall well-being. And, say the authors, don't fall into the trap of putting a dollar value on your time, as this leads to increased stress levels. "Simply feeling like your time is valuable can make it seem scarce."

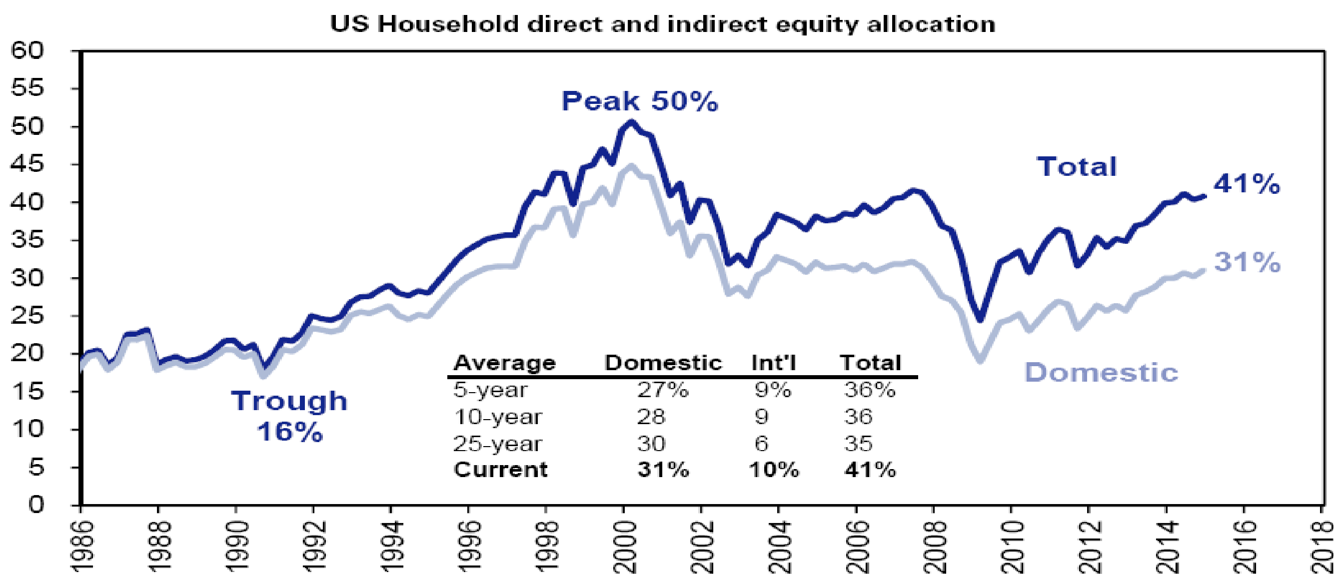
4. Pay Now, Consume Later. Paying for a treat or experience up front, such as event tickets you buy months in advance, allows you to benefit from the extended pleasure of eager anticipation. With all due respect to Tom Petty, the waiting, it seems, may be the best part. Conversely, credit cards can be a dangerous, albeit convenient, financial tool, facilitating a "consume now, pay later" dynamic. One study cited in *Happy Money* found that all 30 people surveyed underestimated their monthly credit-card bills by a sizable average of nearly 30%.

5. Invest in Others. Regardless of your circumstances--wealthy or not, young or old--research finds that spending money on others leads to greater happiness than spending on oneself.

The danger zones

While some experts differ on whether higher incomes result in greater levels of happiness, they tend to agree on the following: Increasing debt levels are detrimental to happiness, and keeping up with the Joneses can lead to a general sense of dissatisfaction. Instead, actively managing debt while finding ways to appreciate what you already have on a day-to-day basis may help you make well-thought-out saving and spending choices that support your overall level of well-being.

Household Equity Allocation



Average	Domestic	Int'l	Total
5-year	27%	9%	36%
10-year	28	9	36
25-year	30	6	35
Current	**31%**	**10%**	**41%**

Source: FRB and Goldman Sachs Global Investment Research

Avoiding Probate: Is It Worth It?

When you die, your estate goes through a process that manages, settles, and distributes your property according to the terms of your will. This process is governed by state law and is called probate. Probate proceedings fall under the jurisdiction of the probate court (also called the Surrogate's, Orphans', or Chancery court) of the state in which you are domiciled at the time of your death. This court oversees probate of your personal property and any real estate that is located in that state. If you own property located in a state other than the state in which you are domiciled at the time of your death, a separate "ancillary" probate proceeding may need to be initiated in the other state.

Note: *"Domicile" is a legal term meaning the state where you intend to make your permanent home. It does not refer to a summer home or a temporary residence.*

Items that are subject to probate are known as probate assets. Probate assets generally consist of any property you own individually at the time of your death that passes to your beneficiaries according to the terms of your will. Examples of nonprobate assets include property that is owned jointly with right of survivorship (e.g., a jointly held bank account) and property that is owned as tenants-by-the-entirety (i.e., real property owned jointly by a husband and wife). Other examples are property that passes to designated beneficiaries by operation of law, such as proceeds of life insurance and retirement benefits, and property held in trust. Property that does not pass by will, right of survivorship, beneficiary designation, or trust will also be subject to probate.

Why avoid probate?

Most wills have to be probated. The rules vary from state to state, but in some states, smaller estates are exempt from probate, or they may qualify for an expedited process.

Probate can be slow. Depending on where your executor probates your estate and the size of your probate estate, the probate process can take as little as three months or as long as three years. Three years can be a long time to wait for needed income. It can take even longer if the estate is a complicated one or if any of the heirs are contesting the will.

Probate can be costly. Probate costs usually include court costs (filing fees, etc.), publication costs for legal notices, attorney's fees, executor's fees, bond premiums, and appraisal fees. Court costs and attorney's fees can vary from state to state. Typically, the larger the estate, the greater the probate costs. However, if a smaller estate has complex issues associated with its administration or with distribution of its assets (e.g., if the person who died owned property in several states), probate can be quite costly.

Probate is a public process. Wills and any other documents submitted for probate become part of the public record--something to consider if you or your family members have privacy concerns.

Why choose to go through probate?

For most estates, there's usually little reason to avoid probate. The actual time and costs involved are often modest, and it just doesn't make sense to plan around it. And there are actually a couple of benefits from probate. Because the court supervises the process, you have some assurance that your wishes will be abided by, and if a family squabble should arise, the court can help settle the matter. Further, probate offers some protection against creditors. As part of the probate process, creditors are notified to make their claims against the estate in a timely manner. If they do not, it becomes much more difficult for them to make their claims later on.

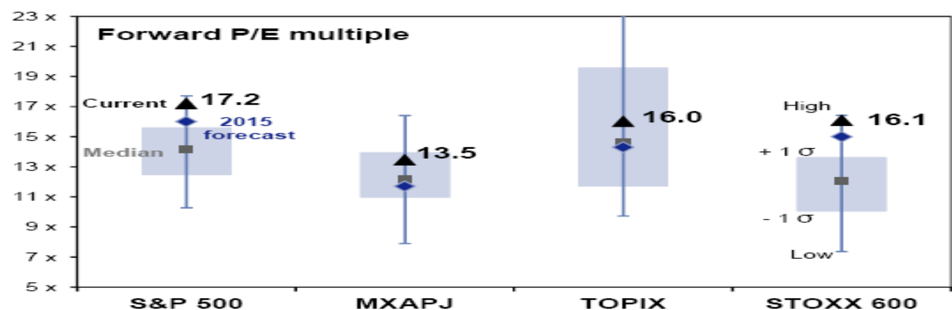
In addition, some states require that your will be probated before the beneficiaries under your will can exercise certain rights. Among the rights that may be limited are the right of your surviving spouse to waive his or her share under the will and elect a statutory share instead, use your residence during his or her remaining life, set aside certain property, and receive a family allowance.

How to avoid probate

An estate plan can be designed to limit the assets that pass through probate or to avoid probate altogether. Property may be passed outside of probate by owning property jointly with right of survivorship; by ensuring that beneficiary designation forms are completed for those types of assets that allow them, such as IRAs, retirement plans, and life insurance (to avoid probate you shouldn't name your estate as beneficiary); by putting property in a trust; and by making lifetime gifts.

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.

Global Equity Market Forecast Returns and Valuation (local vs. USD)



Source: FactSet and Goldman Sachs Global Investment Research

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