The Financial Solutions Advisor

3Q16

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Economic & Market Perspectives

In the world of stocks, the second quarter of the year was anything but dull. April saw the large-cap S&P 500 and Dow make marginal gains, with the small-cap Russell 2000 and the Global Dow leading the way for the month. The Federal Reserve (Fed) left interest rates at their 0.25%-0.50% range, noting that economic growth had slowed since the beginning of the year. May ended up being another good month for stocks. June started out with relatively lackluster returns for stocks as labor added only 38,000 new jobs and the Fed, once again, reiterated its reluctance to raise interest rates based on lagging inflationary trends, weakening in the jobs sector, and sluggish exports.

But the month and quarter ended with quite a bang, primarily precipitated by the UK's referendum vote to withdraw from the European Union (EU), which sent stocks around the world into a dramatic tailspin, felled the British pound by over 10%, and drastically cut some long-term bond yields. Nevertheless, by the last day of the quarter, stocks seem to have weathered the storm and regained much of what they had lost. Of the indexes listed here, only the Nasdaq lost value quarter-to-quarter. On the plus side, the Dow and S&P 500 posted quarterly gains of 1.38% and 1.90%, respectively.

Gold continued to increase in value, closing the month and quarter at $1,324.90. Long-term bond yields hit the skids as investors poured money into bonds, raising bond prices and narrowing yields.

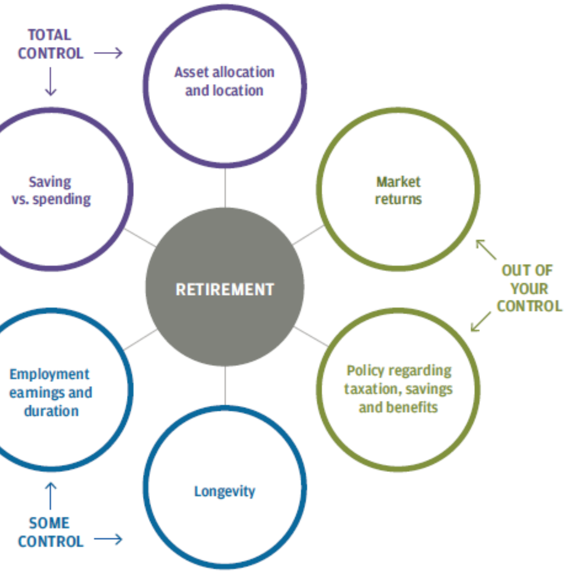
2016 Returns

S&P 500	*3.84%*
NASDAQ	*-3.17%*
Russell Small Cap	*2.22%*
Russell Mid Cap	*5.50%*
MSCI EAFE	*-4.42%*
MSCI World	*0.66%*
Barclay US Agg.	*5.31%*
Barclay Muni.	*4.33%*

The keys to whether the U.S. economy is affected will be whether the stock markets are affected enough to have a major impact on business and consumer confidence and whether banks are affected such that they pull back on lending.

Whether the impact of the Brexit vote continues to negatively affect stocks remains to be seen. The Federal Open Market Committee (FOMC), which meets at the end of July, will be armed with reports on several important economic indicators including consumer prices, producer prices, and the employment situation—all of which come out before the Committee's July meeting.

The Retirement Equation



Planning for retirement can be overwhelming as individuals navigate various retirement factors over which we have varying levels of control. There are challenges in retirement planning over which we have no control, like the future of tax policy and market returns, and factors over which we have limited control, like longevity and how long we plan to work. The best way to plan for a secure retirement is to focus on the factors we can control: optimize saving, understand and manage spending and adhere to a balanced approach to investing.

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Recession Probabilities by Country

	Recession Probabilities 2016Q3 Current	2016Q3 Average*	2016Q3-17Q2 Current	2016Q3-17Q2 Average*	2016Q3-18Q2 Current	2016Q3-18Q2 Average*
Australia	**2**	13	**11**	22	**25**	34
Canada	**18**	19	**50**	37	**72**	59
Switzerland	**59**	29	**84**	47	**93**	63
Denmark	**43**	24	**72**	42	**81**	58
Euro area**	**11**	18	**34**	32	**48**	48
UK (post-Brexit uncertainty)	**74**	14	**72**	19	**62**	25
UK (June uncertainty)	**47**		**45**		**37**	
Japan	**21**	22	**59**	38	**68**	57
Korea	**0**	8	**6**	12	**14**	18
Norway	**63**	15	**82**	33	**90**	48
Sweden	**1**	18	**11**	25	**28**	35
US	**8**	15	**18**	24	**25**	34
DM**	**15**	16	**32**	28	**41**	41

* 1980-2015.

** GDP-weighted average of individual probabilities.

Source: Goldman Sachs Global Investment Research

The main results are as follows:

- The UK is fairly likely to enter recession over the next year, primarily due to elevated uncertainty and the recent sharp drop in the Sterling. These developments have overturned otherwise-solid fundamentals (including a sharp reduction in the credit/GDP ratio in recent years). However, whether a recession is the base case depends on the precise assumptions about how economic policy uncertainty evolves from here. We estimate a risk of well above 50% if uncertainty stays at the post-referendum level, and just under 50% if uncertainty moves back to the average level for all of June.

- The risk of recession is moderate in the Euro area and just a touch above the unconditional probability. On the one hand, financial and uncertainty indicators have deteriorated and pushed up the risk of recession; but, on the other hand, the fundamentals remain favorable with decent growth momentum, continued slack, and declining debt/GDP ratios in much of the Euro area.

- The likelihood of recession in the US remains below the historical average. Financial and uncertainty measures have not deteriorated much and growth momentum remains decent.

- Japan faces higher recession risk than normal, driven by sluggish growth momentum and the recent tightening in financial conditions.

- The model also shows high recession risks in other countries including Canada, Switzerland, Norway and Denmark. This is largely because (per Capita) growth in these economies is already negative or very low.

I have matured U.S. savings bonds… are they still earning interest? If not, am I able to roll them into another savings bond?

Once U.S savings bonds have reached maturity, they stop earning interest. Prior to 2004, you could convert your Series E or EE savings bonds for Series HH bonds. This would have allowed you to continue earning tax-deferred interest. However, after August 31, 2004, the government discontinued the exchange of any form of savings bonds for HH bonds, so that option is no longer available.

Since matured savings bonds no longer earn interest, there is no financial benefit to holding on to them. If you have paper bonds, you can cash them in at most financial institutions, such as banks or credit unions. However, it's a good idea to call a specific institution before going there to be sure it will redeem your bonds. As an alternative, you can mail them to the Treasury Retail Securities Site, PO Box 214, Minneapolis, MN 55480, where they will be redeemed. If you have electronic bonds, log on to treasurydirect.gov and follow the directions there. The proceeds from your redeemed bonds can be deposited directly into your checking or savings account for a relatively quick turnover.

Another important reason to redeem your matured savings bonds may be because savings bond interest earnings, which can be deferred, are subject to federal income tax when the bond matures or is otherwise redeemed, whichever occurs first. So if you haven't previously reported savings bond interest earnings, you must do so when the bond matures, even if you don't redeem the bonds.

Using the money for higher education may keep you from paying federal income tax on your savings bond interest. The savings bond education tax exclusion permits qualified taxpayers to exclude from their gross income all or part of the interest paid upon the redemption of eligible Series EE and I bonds issued after 1989 when the bond owner pays qualified higher-education expenses at an eligible institution. However, there are very specific requirements that must be met in order to qualify, so consult with your tax professional.

Six Common 401(k) Plan Misconceptions

Do you really know as much as you think you do about your 401(k) plan? Let's find out.

1. If I leave my job, my entire 401(k) account is mine to keep.

This may or may not be true, depending on your plan's "vesting schedule." Your own contributions to the plan--that is, your pretax or Roth contributions--are always yours to keep. While some plans provide that employer contributions are also fully vested (i.e., owned by you) immediately, other plans may require that you have up to six years of service before you're entitled to all of your employer contributions (or you've reached your plan's normal retirement age). Your 401(k)'s summary plan description will have details about your plan's vesting schedule.

2. Borrowing from my 401(k) plan is a bad idea because I pay income tax twice on the amount I borrow.

The argument is that you repay a 401(k) plan loan with dollars that have already been taxed, and you pay taxes on those dollars again when you receive a distribution from the plan. Though you might be repaying the loan with after-tax dollars, this would be true with any type of loan.

And while it's also true that the amount you borrow will be taxed when distributed from the plan (special rules apply to loans from Roth accounts), those amounts would be taxed regardless of whether you borrowed money from the plan or not. So the bottom line is that, economically, you're no worse off borrowing from your plan than you are borrowing from another source (plus, the interest you pay on a plan loan generally goes back into your account). But keep in mind that borrowing from your plan reduces your account balance, which may slow the growth of your retirement nest egg.

3. Because I make only Roth contributions to my 401(k) plan, my employer's matching contributions are also Roth contributions.

Employer 401(k) matching contributions are always pretax--whether they match your pretax or Roth contributions. That is, those matching contributions, and any associated earnings, will always be subject to income tax when you receive them from the plan. You can, however, convert your employer's matching contributions to Roth contributions if your plan allows. If you do, they'll be subject to income tax in the year of the conversion, but future qualified distributions of those amounts (and any earnings) will be tax free.

4. I contribute to my 401(k) plan at work, so I can't contribute to an IRA.

Your contributions to a 401(k) plan have no effect on your ability to *contribute* to a traditional or Roth IRA. However, your (or your spouse's) participation in a 401(k) plan may adversely impact your ability to *deduct* contributions to a traditional IRA, depending on your joint income.

5. I have two jobs, both with 401(k)s. I can defer up to $18,000 to each plan.

Unfortunately, this is not the case. You can defer a maximum of $18,000 in 2015, plus catch-up contributions if you're eligible, to all your employer plans (this includes 401(k)s, 403(b)s, SARSEPs, and SIMPLE plans). If you contribute to more than one plan, you're generally responsible for making sure you don't exceed these limits. Note that 457(b) plans are not included in this list. If you're lucky enough to participate in a 401(k) plan and a 457(b) plan you may be able to defer up to $36,000 (a maximum of $18,000 to each plan) in 2015, plus catch-up contributions.

6. I'm moving to a state with no income tax. I've heard my former state can still tax my 401(k) benefits when I retire.

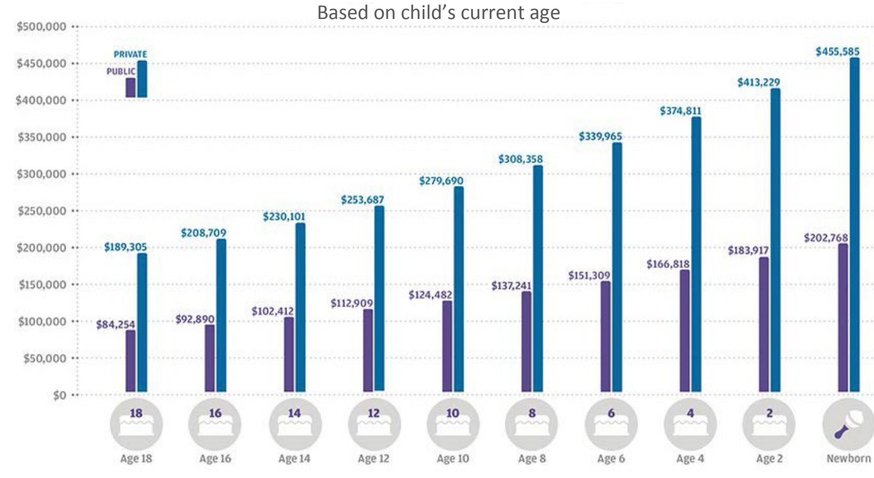
While this was true many years ago, it's no longer the case. States are now prohibited from taxing 401(k) (and most other) retirement benefits paid to nonresidents. As a result, only the state in which you reside (or are domiciled) can tax those benefits. In general, your residence is the place where you actually live. Your domicile is your permanent legal residence; even if you don't currently live there, you have an intent to return and remain there.

College Costs Continue to Rise

Future four-year college costs

The younger the child, the more college is likely to cost. Add up four years per child, and it equals one of a family's largest expenses.

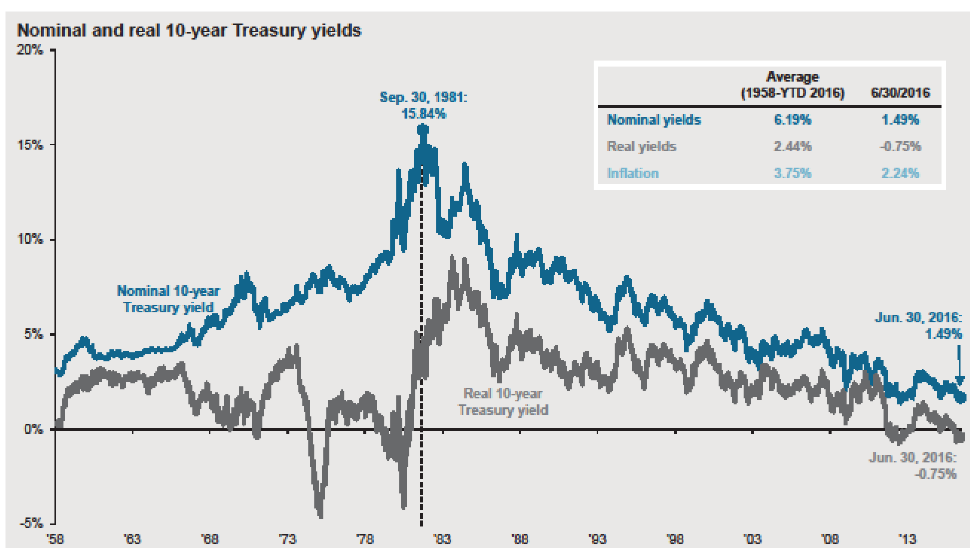
Projected cost of a four-year college education
Based on child's current age



Source: J.P. Morgan Asset Management, using the College Board, 2015 Trends in College Pricing.
Future college costs estimated to inflate 5% per year.

Interest Rates and Inflation

This chart takes a look at both nominal and real interest rates from 1958 through the present. Interest rates have been falling for the past 30 years, leaving both real and nominal yields historically low. Short-term rates and real yields (i.e., yields after inflation) on some fixed income investments are close to zero. Even in a low rate environment, bonds provide needed income and can reduce overall portfolio volatility. Nevertheless, low rates, global uncertainty and the potential for inflation create challenges for fixed income investors: Producing enough income, hedging against possible losses if bond rates rise and combating the erosion of purchasing power over time. While bonds will likely be adversely impacted by rising rates, the impact won't be uniform across all bond types. Different bond market sectors, structures and maturities respond differently to changing interest rates. For example, high-yield bonds tend to be less sensitive to rates than U.S. Treasuries. The same is true for shorter-term bonds. That's why diversification can help manage risk and reduce the overall impact rising rates might have on your bond portfolio.



Source: BLS, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for June 2016, where real yields are calculated by subtracting out May 2016 year-over-year core inflation.
Guide to the Markets – U.S. Data are as of June 30, 2016.

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