4Q15

The Financial Solutions Advisor

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Economic & Market Perspectives

The Markets

Volatility returned to the equities markets in the third quarter, impacted by economic stress in China (the world's second largest economy) and Greece, coupled with underwhelming corporate earnings reports and falling energy stock prices. While some economic sectors, such as housing and unemployment, offered favorable news, others, including exports and wages, showed little in the way of positive movement. As a result, the Federal Open Market Committee (FOMC) once again declined to raise interest rates, noting that inflation still hadn't reached the committee's preferred target rate of 2.0%.

The third quarter ended a tumultuous period in negative territory. The Dow closed the month of September down 243.33 points for the month and 1,334.81 points for the quarter. The S&P fell 6.94% from the close of the second quarter and 6.74% for the year. The Nasdaq dropped 7.35% for the quarter, but only 2.45% for the year–markedly less than the other major indexes. The Russell 2000 suffered the biggest percentage loss for the quarter, falling 12.22%.

U.S. Treasuries were not immune to the economic tumult that befell the third quarter. The yield on U.S. 10-year Treasury bonds fell 31 basis points for the quarter. Oil prices (WTI) dropped from $59 per barrel during the second quarter to $46.36 per barrel at the end of the third quarter. Gold, meanwhile, also felt the effects of the global economy, finishing the third quarter at roughly $1,114.50 an ounce compared to $1,172 an ounce at the end of the prior quarter. Finally, not all falling values are necessarily bad, as the average retail price of a gallon of regular gasoline fell $0.48 to $2.322 at the end of this quarter.

Quarterly Economic Perspective

• China's slowing economy sent global markets reeling this summer. Already at its slowest pace in 25 years, China is struggling to reach its target growth rate of 7% for the year. Adding to concerns about the weakening of the world's second largest economy is the Chinese government's repeated intervention in an attempt to halt a massive sell-off and stabilize its securities market. Interest rates were cut and bank reserve ratios were lowered, allowing for more money to be available to borrow for investment. However, Chinese banks are facing increasing economic risks due to the increasing number of bad loans, further dampening the Chinese economy.

•Greece's debt crisis culminated in an agreement with its creditors on an 86 billion euro bailout, which may have allowed the country to remain in the Eurozone. Greek Prime Minister Alexis Tsipras, despite campaign promises to write off debt and ease austerity, ultimately negotiated the terms of the new deal, which included stricter austerity measures than had previously existed. Tsipras subsequently resigned, calling for new elections in September, which resulted in his reelection as prime minister and leader of his left-wing Syriza party. Whether the Greek economy can muster enough support to comply with the requirements of the new debt deal remains to be seen.

• The U.S. economy is progressing, but not at a pace sufficient to warrant raising interest rates, according to the FOMC. After its September meeting, the FOMC indicated that, while there were improvements in some economic sectors such as labor and the housing market, other areas have lagged, including business and exports. With inflation still running below the Fed's target rate of 2.0% and the economic uncertainties in China, the FOMC stressed continued patience, yet indicated its expectation that interest rates will be raised sometime this year.

• Still revising its second quarter figures, the Bureau of Economic Analysis (BEA) noted that the real gross domestic product (GDP), which measures the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production, is stronger at an annualized rate of 3.9%. This is up from the prior estimate of 3.7%. The upward revision was attributed to increases in personal consumption expenditures and nonresidential fixed investment.

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2015 Returns

S&P 500	*-5.29%*
NASDAQ	*-0.41%*
Russell Small Cap	*-7.73%*
Russell Mid Cap	*-5.84%*
MSCI EAFE	*-5.28%*
MSCI World	*-6.04%*
Barclay US Agg	*1.13%*
Barclay Muni.	*1.77%*

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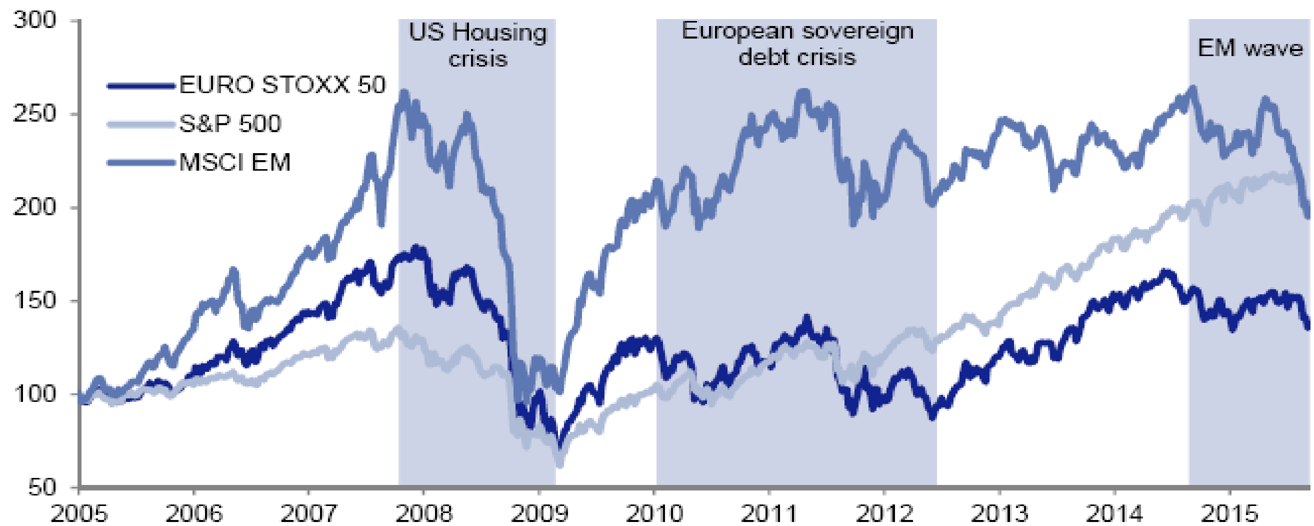
The EM wave is the third wave in the Global Financial Crisis

Total return by index, 2005 = 100



Source: Datastream, Goldman Sachs Global Investment Research

Economic and Market Perspectives ***Continued from page 1***

•Exports continue to be a drag on economic growth domestically. According to advance figures from the Commerce Department, August exports fell 3.2% as the trade deficit grew 13.6% to $67 billion.

•The Department of the Treasury reports that for the 11-month period ended in August, the federal deficit was $530 billion–$59 billion less than the same 11-month period last year. Government receipts were up 8%, while government spending increased 4.8%.

•Showing signs of economic improvement, the third quarter saw an increase in consumers' income and spending. The BEC reported that in August consumer spending increased $52.5 billion, or 0.3%; disposable personal income increased $47.1 billion, or 0.4%; and wages and salaries increased $35.6 billion. The rise in personal consumption compared to the first quarter has spurred GDP growth in the second quarter.

•Possibly reflecting the stock market slow-down in September, the University of Michigan's Consumer Survey came in at 87.2 to close the third quarter, its weakest reading since October 2014.

•The housing sector remained a favorably trending sector in the third quarter. According to the National Association of Realtors®, total existing home sales in August enjoyed a 6.2% growth rate in year-on-year sales, maintaining a seasonally adjusted annual rate of 5.31 million. The median existing-home price for all housing types remained at $228,700. New home sales were at a seasonally adjusted annual rate of 552,000 in August–5.7% above the July rate of 522,000 and 21.6% above the August 2014 estimate of 454,000, according to the Census Bureau.

•More people are working and fewer are filing for unemployment insurance. The Bureau of Labor Statistics reports the number of job openings again rose to a series high of 5.8 million on the last business day of July. The number of hires and separations edged down to 5.0 million and 4.7 million, respectively. The unemployment rate for August stood at 5.1% compared to 6.1% in August 2014. Continuing claims for unemployment insurance in the early part of September came in at 2.24 million compared to 2.46 million a year earlier.

Eye on the Months Ahead

Equities are starting to show tentatively encouraging signs. In late September, equity markets experienced a renewed downturn, but did not pierce their August lows. Had they done so, that could have led to a further rout. Instead, however, prices moved modestly higher over the last week, even in the face of mixed economic data. We think this suggests selling pressures may be starting to fade. We are hardly out of the woods yet, and it is certainly possible we could see another retest of the recent lows. In the short term, we don't anticipate any sustained advance in prices until we see equity prices break out of their recent trading ranges to the upside.

So what will it take for equities to be begin another rally? For one, we think investors will need to see continued evidence that global growth remains on track. More signs of stability from China would certainly help. We expect such evidence will materialize, but acknowledge that it will still take some time. Nevertheless, we think stronger growth will push both global equity prices and bond yields higher in the coming months. As such, we believe sticking with a pro-growth investment stance still makes sense. Traditional safe havens have become expensive in recent years while most risk assets, including equities, offer better value. We caution, however, that commodities (and commodity-based markets and regions) are likely to continue to struggle.

2015 Year-End Tax Planning Basics

As the end of the 2015 tax year approaches, set aside some time to evaluate your situation and consider potential opportunities. Effective year-end planning depends on a good understanding of both your current circumstances and how those circumstances might change next year.

Basic strategies
Consider whether there's an opportunity to defer income to 2016. For example, you might be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. When you defer income to 2016, you postpone payment of the tax on that income. And if there's a chance that you might be paying taxes at a lower rate next year (for example, if you know that you'll have less taxable income next year), deferring income might mean paying *less* tax on the deferred income.

You should also look for potential ways to accelerate 2016 deductions into the 2015 tax year. If you typically itemize deductions on Schedule A of Form 1040, you might be able to accelerate some deductible expenses--such as medical expenses, qualifying interest, or state and local taxes--by making payments before the end of the current year, instead of paying them in early 2016. Or you might consider making next year's charitable contribution this year instead. If you think you'll be itemizing deductions in one year but claiming the standard deduction in the other, trying to defer (or accelerate) Schedule A deductions into the year for which you'll be itemizing deductions might let you take advantage of deductions that would otherwise be lost.

Depending on your circumstances, you might also consider taking the opposite approach. For example, if you think that you'll be paying taxes at a higher rate next year (maybe as the result of a recent compensation increase or the planned sale of assets), you might want to look for ways to accelerate income into 2015 and possibly defer deductions until 2016 (when they could potentially be more valuable).

Complicating factors
First, you need to factor in the alternative minimum tax (AMT). The AMT is essentially a separate, parallel federal income tax system with its own rates and rules. If you're subject to the AMT, traditional year-end strategies may be ineffective or actually have negative consequences--that's because the AMT effectively disallows a number of itemized deductions. So if you're subject to the AMT in 2015, prepaying 2016 state and local taxes probably won't help your 2015 tax situation, and, in fact, could hurt your 2016 bottom line.

It's also important to recognize that personal and dependency exemptions may be phased out and itemized deductions may be limited once your adjusted gross income (AGI) reaches a certain level. This is especially important to factor in if your AGI is approaching the threshold limit and you're evaluating whether to accelerate or defer income or itemized deductions. For 2015, the AGI threshold is $258,250 if you file as single, $309,900 if married filing jointly, $154,950 if married filing separately, and $284,050 if head of household.

IRA and retirement plan contributions
Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2015 taxable income. (Note: A number of factors determine whether you're eligible to deduct contributions to a traditional IRA.) Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars--so there's no immediate tax savings--but qualified distributions are completely free of federal income tax.

For 2015, you're generally able to contribute up to $18,000 to a 401(k) plan ($24,000 if you're age 50 or older) and up to $5,500 to a traditional or Roth IRA ($6,500 if you're age 50 or older). The window to make 2015 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2015 IRA contributions.

Important notes
The Supreme Court has legalized same-sex marriage nationwide, significantly simplifying the federal and state income tax filing requirements for same-sex married couples living in states that did not previously recognize their marriage.

A host of popular tax provisions (commonly referred to as "tax extenders") expired at the end of 2014. Although it is possible that some or all of these provisions will be retroactively extended, currently they are not available for the 2015 tax year. Among the provisions: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

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

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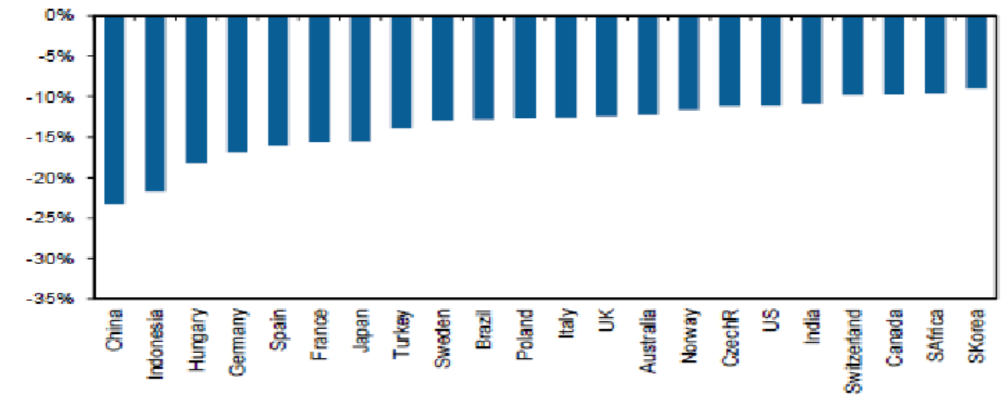
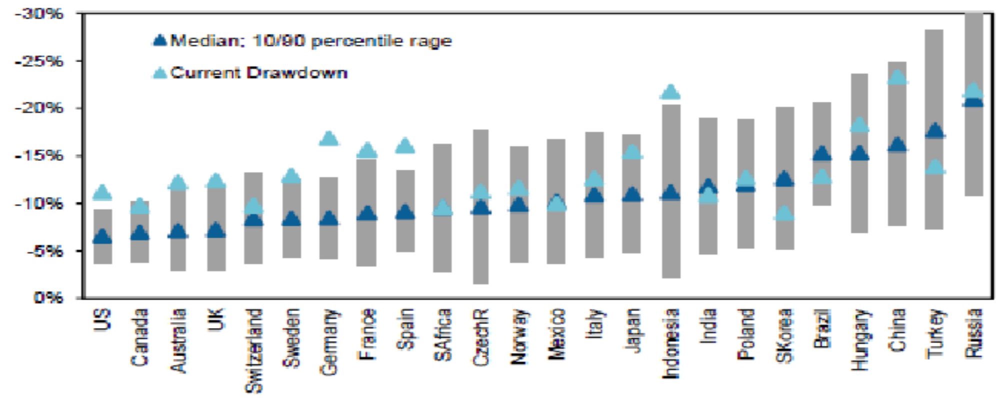
Most global equity markets have recently experienced a drawdown



Current DM Drawdowns



Source: Goldman Sachs Global Investment Research

Six Common 401(k) Plan Misconceptions

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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 non-residents. 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.

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