4Q16

The Financial Solutions Advisor

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Economic & Market Perspectives

The second quarter provided a bumpy ride for investors. Following the upheaval caused by the Brexit vote in June, July kicked off the third quarter by ending the month in favorable fashion, as each of the major indexes (S&P 500, DJIA, Russell 2000 and Global Dow) posted month-to-month gains, led by the Russell 2000 (5.90%) and the Nasdaq (6.60%). Stocks held their own for July, despite falling energy shares, as crude oil prices (WTI) sank from around $49 per barrel to under $42 by the close of July. As money moved into stocks, bond yields remained on the low side as the yield on 10-year Treasuries remained below 1.60%, closing July at just about where it started at 1.45%.

The dog days of summer saw light trading in August, but that didn't stop the markets from moving sharply. By the middle of the month, the Dow, S&P 500, and Nasdaq had surged to all-time highs — the first time since 1999 that all three indexes reached a new high at the same time. Yet by the end of August, each of the indexes saw their values fall back to about where they were at the beginning of the month. The large-cap Dow and S&P 500 fell ever so slightly from July's closing values, while the Russell 2000 and Global Dow posted modest gains for the month. Crude oil fell below $40 per barrel during the month, but rebounded to close the month at about $45 per barrel. Bond prices fell as the yield on 10-year Treasuries reached 1.60%.

Volatility best described the U.S. stock market over this past summer. However, September saw some positive gains overall in stocks as the employment sector and consumer spending were positive developments as was news that the Federal Reserve (Fed) would not be raising interest rates during the month. The Federal Open Market Committee (FOMC) doesn't meet in October, so changing interest rates are not an issue. However, October is particularly important as economic trends for the month will influence the course of action taken by the Fed when it meets again in November.

Business confidence is strengthening, labor trends are positive and consumer spending should improve. This should help the U.S. economy accelerate modestly over the coming year. Government bond yields are exceptionally low, and many economists believe it would take a significant deflation scare to push them lower, which these economists think is unlikely. As such, government bonds will most likely struggle to post positive returns in the coming quarters.

Stocks should experience modest tailwinds from improving economic growth and greater stability in commodities prices. Corporate earnings may continue to struggle. Slow economic growth and deflationary concerns have put downward pressure on corporate earnings over the past eighteen months. These factors remain concerns, but many economists are seeing signs that earnings may improve. Nevertheless, it will be an uphill road for many areas of the stock market. Profits are also under pressure. Poor pricing power conditions and rising labor costs will likely complicate an already difficult corporate earnings environment.

2016 Returns

S&P 500	*7.84%*
NASDAQ	*7.19%*
Russell Small Cap	*11.46%*
Russell Mid Cap	*10.26%*
MSCI EAFE	*1.73%*
MSCI World	*5.55%*
Barclay US Agg. Bond	*5.80%*
Barclay Municipal Bond	*4.01%*

Current Leading Economic Index Levels and Trends

Indicator	Current level	Trend
Leading Economic Index (LEI)	Fair	Stable
• Average workweek	Fair	Stable
• Unemployment claims	Strong	Improving
• New orders: consumer goods and materials	Fair	Improving
• ISM New Orders Index	Strong	Worsening
• New orders: nondefense capital goods excl. aircraft	Fair	Stable
• Building permits	Fair	Worsening
• S&P 500	Strong	Improving
• Leading Credit Index	Strong	Improving
• Interest rate spread	Fair	Improving
• Avg. consumer expectations for business and economic conditions	Fair	Worsening

Source: Charles Schwab, The Conference Board, as of August 31, 2016

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Four Things to Know about Inherited IRAs

When an IRA owner dies, the IRA proceeds are payable to the named beneficiary--or to the owner's estate if no beneficiary is named. If you've been designated as the beneficiary of a traditional or Roth IRA, it's important that you understand the special rules that apply to "inherited IRAs."

It's not really "your" IRA

As an initial matter, while you do have certain rights, you are generally not the "owner" of an inherited IRA. The practical result of this fact is that you can't mix inherited IRA funds with your own IRA funds, and you can't make 60-day rollovers to and from the inherited IRA. You also need to calculate the taxable portion of any payment from the inherited IRA separately from your own IRAs, and you need to determine the amount of any required minimum distributions (RMDs) from the inherited IRA separately from your own IRAs.

But if you inherited the IRA from your spouse, you have special options. You can take ownership of the IRA funds by rolling them into your own IRA or into an eligible retirement plan account. If you're the sole beneficiary, you can also leave the funds in the inherited IRA and treat it as your own IRA. In either case, the IRA will be yours and no longer treated as an inherited IRA. As the new IRA *owner* (as opposed to *beneficiary*), you won't need to begin taking RMDs from a traditional IRA until you reach age 70½, and you won't need to take RMDs from a Roth IRA during your lifetime at all. And as IRA owner, you can also name new beneficiaries of your choice.

Required minimum distributions

As beneficiary of an inherited IRA--traditional or Roth--you must begin taking RMDs after the owner's death.* In general, you must take payments from the IRA annually, over your life expectancy, starting no later than December 31 of the year following the year the IRA owner died. But if you're a spousal beneficiary, you may be able to delay payments until the year the IRA owner would have reached age 70½.

In some cases you may be able to satisfy the RMD rules by withdrawing the entire balance of the inherited IRA (in one or more payments) by the fifth anniversary of the owner's death. In almost every situation, though, it makes sense to use the life expectancy method instead--to stretch payments out as long as possible and take maximum advantage of the IRA's tax-deferral benefit.

You can always elect to receive more than the required amount in any given year, but if you receive less than the required amount you'll be subject to a federal penalty tax equal to 50% of the difference between the required distribution and the amount actually distributed.

More stretching…

What happens if you elect to take distributions over your life expectancy but you die with funds still in the inherited IRA? This is where your IRA custodial/trustee agreement becomes crucial. If, as is sometimes the case, your IRA language doesn't address what happens when you die, then the IRA balance is typically paid to your estate--ending the IRA tax deferral.

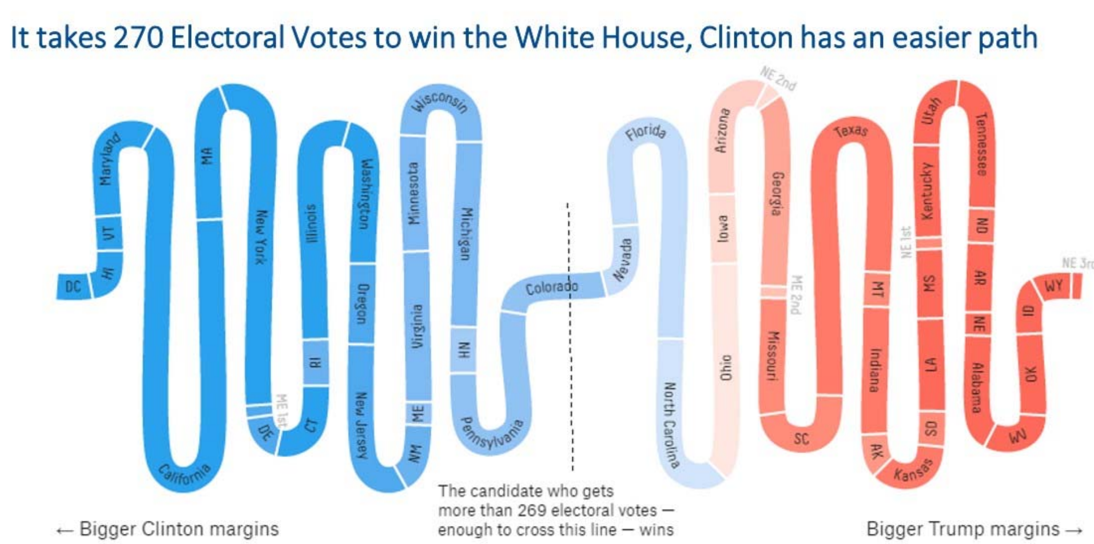
Many IRA providers, though, allow you to name a successor beneficiary. In this case, when you die, your successor beneficiary "steps into your shoes" and can continue to take RMDs over your remaining distribution schedule.

Federal income taxes

Distributions from inherited IRAs are subject to federal income taxes, except for any Roth or nondeductible contributions the owner made. But distributions are never subject to the 10% early distribution penalty, even if you haven't yet reached age 59½. (This is one reason why a surviving spouse may decide to remain as beneficiary rather than taking ownership of an inherited IRA.)

When you take a distribution from an inherited Roth IRA, the owner's nontaxable Roth contributions are deemed to come out first, followed by any earnings. Earnings are also tax-free if made after a five-calendar-year holding period, starting with the year the IRA owner first contributed to any Roth IRA. For example, if the IRA owner first contributed to a Roth IRA in 2014 and died in 2016, any earnings distributed from the IRA after 2018 will be tax-free.

The Path to the White House



What are my Health Care Options if I Retire Early?

If you're eligible for an early-retirement package from your employer, determine whether post-retirement medical coverage is included. These packages sometimes provide medical coverage until you reach age 65 and become eligible for Medicare. Given the high cost of medical care, you might find it hard to turn down an early-retirement package that includes such coverage.

If your package doesn't include post-retirement medical coverage, or you're not eligible for an early-retirement package at all, you'll need to look into alternative sources of health insurance, such as COBRA continuation coverage or an individual health insurance policy, to carry you through to Medicare eligibility.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), most employer-provided health plans (typically employers with 20 or more employees) must offer temporary continuation coverage for employees (and their dependents) upon termination of employment. Coverage can last for up to 18 months, or 36 months in some cases. You'll generally have to pay the full cost of coverage--employers aren't required to continue their contribution toward coverage, and most do not. Employers can also charge an additional 2% administrative fee.

Individual health insurance is available directly from various insurance carriers or, as a result of the Affordable Care Act, through state-based or federal health insurance marketplaces. One advantage of purchasing coverage through a marketplace plan is that you may be entitled to a premium tax credit if your post-retirement income falls between 100% and 400% of the federal poverty level (additional income-based subsidies may also be available).

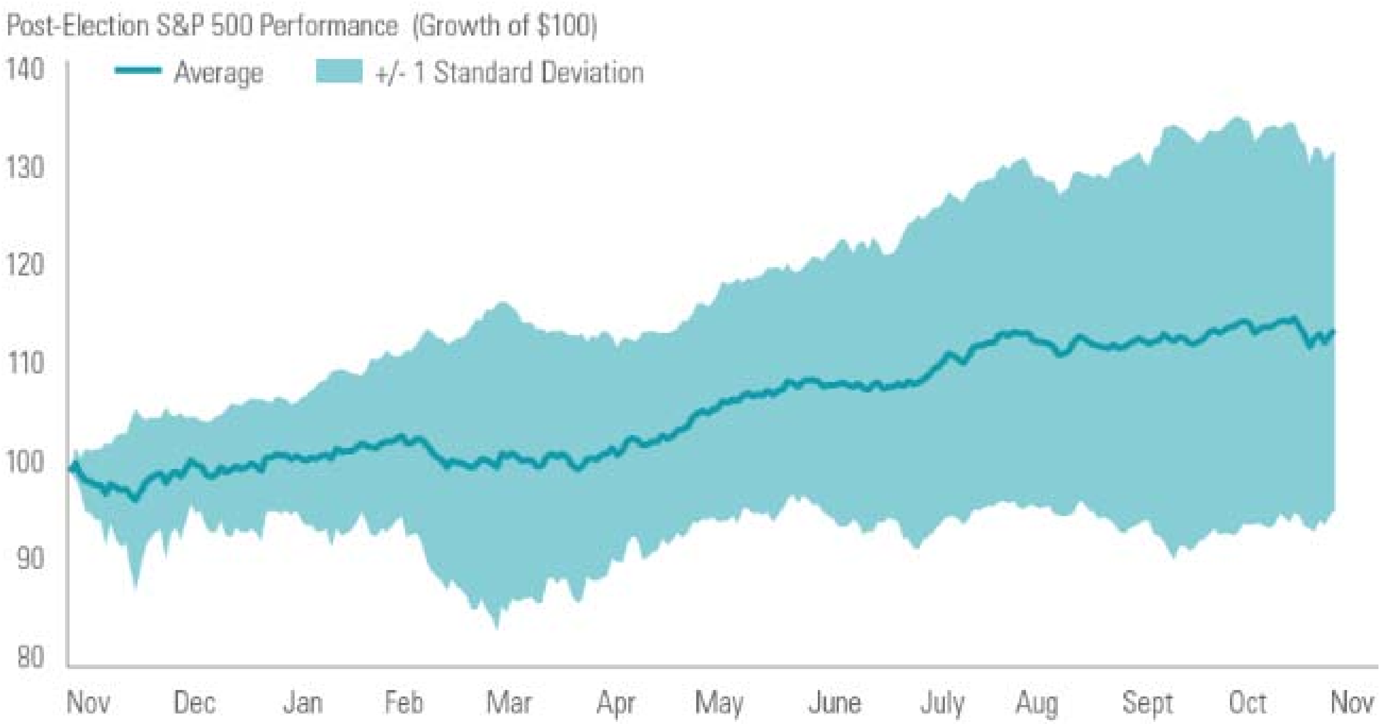
Some factors to consider when comparing various health options are (1) the total cost of coverage, taking into account premiums, deductibles, copayments, out-of-pocket maximums, and (for marketplace plans) tax credits and subsidies; (2) the ability to continue using your existing health-care providers (and whether those providers will be in-network or out-of-network); and (3) the benefits provided under each option and whether you're likely to need and use those benefits.

Buy the News

The post-election transition to governance removes a degree of uncertainty from capital markets

Markets have typically enjoyed a post-election bounce regardless of the victor.

On average, the S&P 500 has typically risen in the months after the election regardless of which party takes the White House. We believe the effect of legislative and judicial checks and balances, political compromise, and even periods of stalemate have been friendly to markets.



Source: Bloomberg and GSAM

Ten Year-End Tax Tips for 2016

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

> *"Consider opportunities to defer income to 2017, particularly if you think you may be in a lower tax bracket then."*

2. Defer income to next year

Consider opportunities to defer income to 2017, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2017, could make a difference on your 2016 return.

4. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2016, prepaying 2017 state and local taxes probably won't help your 2016 tax situation, but could hurt your 2017 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments.

6. Maximize your retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2016 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

> *"If you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions."*

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified AGI exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately, $200,000 if head of household).

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.

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