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401(k) UPDATE

4TH QUARTER 2014

Finding a Balance between Risk and Return

One of the most basic investment principles is that returns reward you for the risks that you take. While investors are often uncomfortable with the concept of risk, it is this uncertainty that makes higher rates of return possible. Some basic investment principles related to risk and return include:

✔ Returns on specific investments are not known in advance. Investors can review historical rates of return, but there is no guarantee that past returns will be indicative of future returns.

✔ With most investments, there is the possibility that the investment will not meet your return expectations.

✔ The uncertainty regarding your actual return creates risk. Greater uncertainties typically lead to greater risk.

✔ Investments are subject to many different types of risk. Cash is primarily subject to purchasing power risk, or the risk that its purchasing power will decrease due to inflation. In addition to purchasing power risk, bonds are subject to interest rate risk, or the risk that interest rates will increase and cause the bond's value to decrease; and default risk, or the risk that the issuer will not repay the principal or interest on the bonds. Stocks are primarily subject to nonmarket risk, or the risk that events specific to a company or its industry will adversely affect a stock's price; and market risk, or the risk that a particular stock will be affected by overall stock market movements.

✔ There is generally a trade-off between risk and return. Low levels of risk are the most desirable and typically have lower return potential, while higher levels of risk are typically undesirable so must offer higher return potential to encourage investors to invest. Be cautious of claims of high returns with low risk.

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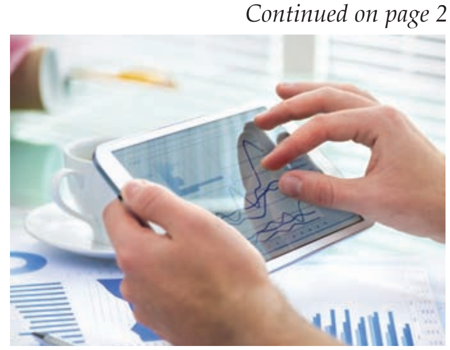

Don't Forget about Catch-up Contributions

If you're 50 years or older, make sure you take advantage of the catch-up options for contributions to IRAs, 401(k)s, and other tax-advantaged, defined-contribution retirement plans.

For IRAs — both traditional and Roth — you can contribute an extra $1,000 a year beyond the standard limit of $5,500. And for workplace qualified plans, the catch-up provisions are even more generous. For 401(k) plans, the catch-up allowance is $5,500 — raising the total limit for the older age group to $23,000 in 2014.

You can do even better if you take advantage of the catch-up provisions in both an IRA *and* a workplace plan. If you're 50 and work until you're 70 (when your Social Security benefits reach their maximum), contributing the maximum in an IRA and a 401(k) at an assumed 7% annual return could potentially add more than $265,000 to your nest egg.

A combination of smarter investing, working a bit longer, and raising your retirement plan contributions may go a long way to creating a brighter outlook. ❍❍❍

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Finding a Balance

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There are strategies that can be used to reduce the risk:

✔ **Diversify your portfolio.** You should diversify among several different investment categories, including cash, bonds, and stocks, as well as within investment categories, such as owning several types of stocks. A properly diversified portfolio should contain a mix of asset types whose values have historically moved in different directions or in the same direction with different magnitudes. By owning several investments rather than just one, a downturn in any one should not have a significant impact on your total return. Of course, the opposite is also true.

✔ **Stay in the market through different market cycles.** Remaining in the market over the long term helps to reduce the risk of receiving a lower return than expected, especially for more volatile investments, such as stocks.

✔ **Use dollar cost averaging to invest.** Rather than accumulating cash so you have a large sum to invest, invest small amounts regularly. Dollar cost averaging involves investing a certain sum of money in set amounts at regular intervals. This spreads your purchases over a period of time, preventing you from making one major purchase at high prices. Since you are investing a set amount, you purchase more shares when prices are lower and fewer shares when prices are higher.

While a valuable investment strategy, dollar cost averaging does not ensure a profit or protect against losses in declining markets. Before starting a program, consider your ability to continue purchases during periods of low price levels. This strategy requires the discipline to invest consistently regardless of market prices and can help develop a habit of regular investing. ❍❍❍

How Financial Planning and Retirement Planning Are Different

According to the most recent (2012) Household Financial Planning Survey conducted by the Certified Financial Planner Board of Standards, only 31% of financial decision makers have a comprehensive financial plan. If the survey had asked respondents to define comprehensive financial plan, few probably could have; most people define financial plan synonymously with retirement plan. In reality, a retirement plan is just one component of a comprehensive financial plan, which also covers savings, investments, insurance, education planning, emergencies, major purchases, and other financial goals.

Equating financial planning with retirement planning can be very risky; not having a comprehensive financial plan can easily derail a person's retirement plan. In this article, we explain how.

What is a financial plan? If you imagine your life like a road trip, your financial plan is the map that guides you from point A to point Z, making all the stops you had envisioned along the way (those are your goals) without ever running out of gas. Your financial plan hinges on the goals you set — living within your means today as well as saving for near-term goals like a family vacation or new car, for medium-term goals like children's college educations, and for long-term goals like retirement.

What is a retirement plan? A retirement plan is one component of a complete financial plan; if your financial plan is your master road map, your retirement plan is like a map inset, providing the details to get you from where you are now to your retirement and to live the kind of lifestyle you want once you're retired. Your retirement plan takes into account your age, your current financial situation, and your goals for retirement. It includes, most basically, how much you need to set aside in what kind of investments (as well as the help you'll get from pension plans, Social Security benefits, and health care benefits).

Financial Planning and Retirement Planning Are Different, But Related

While financial planning and retirement planning are not the same, you cannot have an effective retirement plan without a comprehensive financial plan. Why? Because if you do not have a financial plan in place to meet unexpected, short-term, and medium-term goals, your chances of achieving your long-term goals (retirement) are slim. At the same time, unless you truly plan to work until the day you die, a retirement plan is an essential component of a comprehensive financial plan. Otherwise, you might be prepared for everyday expenses, major life events, and emergencies; but in the end, you won't be prepared for retirement.

It is important that you keep both your financial plan and your retirement plan up to date. Both plans are based on assumptions about your current situation, including income, expenses, goals, investment returns, and tax rates. When those factors change, your plans need to change as well. It's a good idea to sit down at least once a year to make sure you're still on track. ❍❍❍

How to Save More: Step by Step

For many of us, saving money is very difficult. The truth is that most people don't keep careful track of how much they spend and thus, don't do enough to find ways to save. If that describes you, here's an eight-step program to help you find more savings in your household income.

Step 1: Create a budget. Don't think of a budget as a way to scrimp, but as a log that keeps you aware of where your money is going and enables you to manage it better. The key is to keep it organized and in a format that you can return to again and again.

Make a single sheet for each month. Organize it into two sections, one for expenses and the other for income. Divide the expenses section into two parts: the ones you pay for out of your checking account and the ones you pay for at a cash register. Then create a line for every kind of recurring expense you have, from your mortgage or rent, to your utilities, phone, and cable, your memberships and subscriptions, life insurance, and payments for loans and credit cards.

For out-of-pocket expenses, make estimates in advance and create line items for lunches out, personal care like the hairdresser or beauty shop, gas and oil, prescriptions, clothing, and entertainment. In each part, do your best to include everything, but your budget is a living document that you can add to as you remember items.

Devote another column to the net income you expect to receive for the month from all sources. Then, subtract your total expenses from your income. If the result is negative, you've discovered a problem. Fixing it, either by spending less or earning more, will bring your spending in line with what you make.

Step 2: Track your spending. What you've created in the first step is a master budget. Now you have to start tracking what you actually spend. That's not too hard when making payments out of your checking account. The challenge is when you pay for things at a cash register, whether you use cash or a card.

Keep all your receipts and make a daily record of any expenses for which you don't receive a receipt. Then, once a week, enter what you actually spent into your budget. Look for how your actual spending affects the balance between your expenses and total income for the rest of the month.

Step 3: Set a saving goal. As you make your master budget, you need to think about a goal for the extra savings you want to achieve. Enter that amount as a line item in your column of recurring monthly expenses.

Step 4: Make the savings automatic. The key to actually saving what you intend to save is to make the transfer from your paycheck automatically. It's best to do one of three things: increase the amount that you contribute to a workplace savings plan by payroll deduction, authorize a deduction every month from your checking account, or write and deposit a check into your saving account as soon as you get paid.

Step 5: Cut down on discretionary spending. The places you'll find savings are from things you can really do without. These range from snacks at vending machines to meals out, movies, shows and concerts, premium TV channels, expensive smart phone data plans, and even vacations. It can be difficult to say no to yourself, but with practice it gets easier, especially when you see your savings balances start to grow faster.

Step 6: Review your big-ticket finances — mortgage, car loans, or lease. You can find your biggest savings by carefully reviewing your biggest expenses. With mortgage rates near record lows, refinancing could save you hundreds of dollars a month. If you're leasing a luxury vehicle, consider going down a notch or two when it expires, or buy a recent-year used car — you'll save thousands on the depreciation and could lower your monthly spending significantly.

Step 7: Avoid late payment penalties and overdraft fees. Pay all your bills on time so you avoid being charged costly late charges and fees, and keep your checkbook up to date to avoid overdraft charges.

Step 8: Buy only with cash. As much as possible, make your purchases with cash instead of using high-interest credit cards. The idea is to force yourself to postpone impulse purchases that increase your balance and interest charges.

It's always better to err on the side of saving too much than too little. Gauging just how much you really need to save, however, is more a matter of science than art. ❍❍❍

A Portfolio Tune-Up

The need for rebalancing is part of the nature of investing. Since different investments earn different rates of return, their values grow at different rates, changing the weightings in your portfolio. These changes can cause your portfolio risk to increase or decrease, making rebalancing necessary.

While you should definitely rebalance when your financial objectives or life circumstances change, you also want to rebalance on a regular basis. There are three basic methods to consider:

Rebalance annually. Choose a date to rebalance, perhaps at the beginning of the year when you receive your annual statements or at the end of a quarter. On that date every year, compare your current allocation to your target allocation. Any allocations off by more than 5–10% would require rebalancing. Once you have rebalanced, don't be tempted to make other rebalancing changes during the year.

Rebalance when your allocation differs from your target allocation by a designated percentage. With this type of rebalancing, you monitor your portfolio more frequently, perhaps monthly. Once your allocation moves from your target allocation by a predetermined percentage, perhaps 5–10%, you rebalance your portfolio.

Rebalance based on current market conditions. With this approach, rather than one specific percentage for each asset class, you might have a target range. For instance, you might allocate anywhere from 30–50% of your portfolio to large-capitalization stocks. Depending on your views of the market, you might want to allocate near the low or high end of that range. Thus, your allocation will change as your views about the market change. ❍❍❍

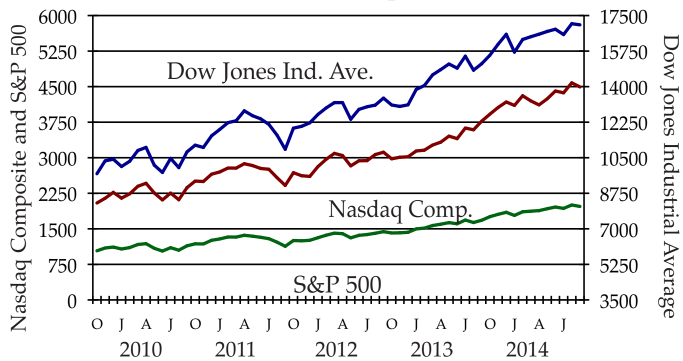
Market Data

	Month End			% Change	
	Sep 14	Aug 14	Jul 14	YTD	12 Mon
Dow Jones Ind.	17042.90	17098.45	16563.30	2.8%	12.6%
S&P 500	1972.29	2003.37	1930.67	6.7	17.3
Nasdaq Comp.	4493.39	4580.27	4369.77	7.6	19.1
Wilshire 5000	20458.82	20936.01	20135.62	5.4	15.5
Gold	1216.50	1285.75	1285.25	1.2	-8.3
				Dec 13	Sep 13
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.42	0.39	0.40	0.43	0.42
3-month T-bill rate	0.02	0.03	0.03	0.07	0.01
20-yr. T-bond rate	3.10	2.93	3.06	3.61	3.53
Dow Jones Corp.	2.90	2.72	2.81	3.11	3.09
Bond Buyer Muni	4.42	4.41	4.53	5.13	5.09

Sources: *Barron's, Wall Street Journal*

Stock Indices

October 2009 to September 2014



Past performance does not guarantee future results.

Thoughts about Retirement Planning

In a recent Gallup poll, 25% of Americans said that cost is the most urgent health problem facing the United States (Source: *InsuranceNewsNet Magazine*, January 2014).

Approximately 28% of Americans would consider moving to another state or county to get better and/or cheaper health insurance. Of those between the ages of 18 and 29, 40% would be willing to move to another state (Source: Bankrate.com, 2014).

Within the baby boomer generation, the wealthiest 20% of boomers own 96% of all equities held by their generation. Their large net worth could mean sustained high-equity allocations throughout retirement as they consider estate planning and wealth transfer strategies. Baby boomers, on average, allocate 47% of their portfolios to U.S. stocks (Source: *AAII Journal*, December 2013).

Approximately one out of every four American workers uses 401(k) and other retirement savings accounts to pay current expenses (Source: *REP.*, November 2013).

Approximately 62% of workers between the ages of 45 and 60 plan to delay retirement, up from 42% in 2010 (Source: *REP.*, November 2013). ❍❍❍